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IN THE

Supreme Court of the United States

October Term, 1956

No. 11

UNITED STATES GYPSUM COMPANY,

Appellant,

—vs.—

NATIONAL GYPSUM COMPANY,
UNITED STATES OF AMERICA, *et al.*,

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

BRIEF OF APPELLEE NATIONAL GYPSUM COMPANY

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—VS.—

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Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

BRIEF OF APPELLEE NATIONAL GYPSUM COMPANY

This appeal is the latest phase of an antitrust prosecution brought by the United States against United States Gypsum Company ("USG"), National Gypsum Company ("National") and others[1] in 1940.

The matter has been docketed as *United States Gypsum Company, Appellant* v. *National Gypsum Company, et al., Appellees,* although in the court below and in all previous proceedings, it was entitled, *United States of America* v.

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1 Certain-teed Products Corporation ("Certain-teed"); The Celotex Corporation ("Celotex"); Ebsary Gypsum Company, Inc. ("Ebsary"); Newark Plaster Company ("Newark"); Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Frederick Ebsary; and Frederick Tomkins.

Jurisdiction

This appeal is from a decree, entered December 9, 1954, by a statutory three-judge court (one judge dissenting) of the United States District Court for the District of Columbia (R. 1159),[2] ordering modification of a Final Decree of that court entered May 15, 1951 (R. 562). The Final Decree was the result of an action, instituted by the United States on August 13, 1940 against, among others, USG, National, Certain-teed, Newark and Ebsary under Sections 1, 2, 3 and 4 of the Sherman Act (Act of July 2, 1890, 26 Stat. 209, as amended; 15 U. S. C., Sections 1, 2, 3 and 4).

On January 28, 1953, USG commenced an action in the United States District Court for the Northern District of Iowa against National, among other things claiming royalties in the amount of $1,600,000 under a license agreement which had been adjudicated unlawful, illegal, null and void in the antitrust proceeding, and the same amount under alternative legal theories (R. 614, 769; App. A).[3] Subsequently, petitions were filed by the United States (R. 739), National (R. 604) and others in the statutory three-judge court for orders, modifications, or directions for the en-

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2 Record references to the record on appeal in this case in the October 1947 term of the Court (see 333 U. S. 364) by stipulation will be designated "1947 R." Record references to the record on appeal in this case in the October 1950 term (see 340 U. S. 76) will be designated "1950 R." All other references are to the record printed herein and will be designated "R."

3 Appendix A (App. A) sets forth the USG complaint and amended complaint in the Iowa action.

forcement, construction, or carrying out of the Final Decree of May 15, 1951.[4]

On December 9, 1954, the statutory three-judge court issued its decree, which ordered USG to dismiss with prejudice its action against National in the Northern District of Iowa and the other actions referred to in note 4 (R. 1159). USG's motion for new trial was denied on June 30, 1955 (134 F. Supp. 69, R. 1336) and its notice of appeal was filed on August 26, 1955 (R. 1340). USG filed its Jurisdictional Statement on October 24, 1955.[5] National and Certain-teed filed motions to affirm on November 22, 1955 and on December 12, 1955, USG filed a brief in opposition to such motion. On January 16, 1956, this Court noted probable jurisdiction (350 U. S. 946).

Statutes and Rules Involved

Section 1651(a) of the Judicial Code, 28 U. S. C., Section 1651(a) reads as follows:

> "The Supreme Court and all courts established by Act of Congress may issue all writs necessary or appropriate in aid of their respective jurisdictions and agreeable to the usages and principles of law."

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4 Appellees Certain-teed, Newark and Ebsary, which were sued by USG in federal courts in similar actions (R. 622-654), also petitioned the statutory three-judge court for similar relief (R. 657, 666, 669).

5 In its Jurisdictional Statement (p. 3), USG asserted that the jurisdiction of this Court to review the decree of December 9, 1954 by direct appeal is conferred by 28 U. S. C. §§1253 and 2101(b). National in its motion to affirm the judgment of the court below (p. 1), indicated its belief that these statutes had not been properly invoked and that the appeal should be founded on Sec. 2 of the Expediting Act, 15 U. S. C. §29. That statute is now relied on by appellant (USG Br. 3).

15 U. S. C., Sections 1, 2, 3 and 4 (The Sherman Act); Federal Rules of Civil Procedure, Rule 8, describing general rules of pleading; and 35 U. S. C., Section 271, relating to the infringement of patents, are set forth as Appendices to Appellant's Brief (hereinafter cited as USG Br.).

Questions Presented

1. Whether the District Court had power to enforce, interpret and modify its decree in order to enjoin USG from prosecuting suits in other federal courts, and whether the petitioners below had standing to activate that power.

2. Whether the District Court, having the power to enforce, interpret and modify its own decree, properly, under the circumstances of this case, exercised that power.

3. Whether the District Court properly ruled, as a matter of law, that there was no purge by USG of its misused patents, and that USG on the offer of proof made was not entitled to a hearing on this question.

Statement of Case

The appeal now before the Court is the most recent result of proceedings instituted in 1940 which five times before resulted in rulings by this Court, 333 U. S. 364 ("First Decision," March 8, 1948), 333 U. S. 869 (rehearing den., April 5, 1948), 339 U. S. 959 (USG's appeal from District Court's decree of November 7, 1949, denied, May 29, 1950), 339 U. S. 960 (on Government's appeal to enlarge relief, probable jurisdiction noted, and injunction granted, May 29, 1950), 340 U. S. 76 ("Second Decision," November 27, 1950).

A. *Proceedings resulting in the Final Decree of May 15, 1951*

1. *The antitrust action brought by the United States.* The 1940 complaint charged defendants USG, National, Newark, Ebsary and Certain-teed and two other corporations and six individuals with conspiring to fix prices on patented gypsum board and unpatented gypsum products, and otherwise to restrain and monopolize interstate commerce in gypsum board and other gypsum products, in violation of Sections 1, 2 and 3 of the Sherman Act (1947 R. 1). An expediting certificate was filed under the Expediting Act of February 11, 1903, as amended, and a three-judge district court was appointed (1947 R. 304, 305).

On March 12, 1943 (1947 R. 350) the District Court gave leave to the Government to amend the prayers of its complaint to include the following request (1947 R. 347):

> "That the defendant companies, and each of them, and their directors, officers, employees, and agents, and all persons or corporations acting on behalf of said companies be enjoined from
>
> "(a) bringing any action for infringement of any patent or patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of the defendants,
>
> "(b) attempting by suit or otherwise to collect royalties or license fees or profits for the use of patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of the defendants relating to gypsum products or to any process or machine used in connection with gypsum products, until it is made to appear to the Court that all improper practices have been abandoned and the consequences of all misuses of patents have been dissipated."

On April 20, 1944, at the close of the presentation of the Government's evidence, the defendants moved to dismiss

the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and law the Government had shown no right to relief (1947 R. 3901-3905). On June 15, 1946, the District Court granted this motion (1947 R. 3933-4131; 67 F. Supp. 397). On August 5, 1946, the District Court filed findings of fact and conclusions of law and entered judgment dismissing the complaint (1947 R. 4132-4168, 4169).

2. *The first decision of this Court.* On appeal, this Court reversed the judgment of dismissal and remanded the case for further proceedings in conformity with its opinion (333 U. S. 364).

In its opinion handed down March 8, 1948, this Court found that U. S. Gypsum, "the dominant concern in the gypsum industry" (333 U. S. at 368), had, "acting in concert with all members of an industry" by substantially identical patent licenses, "regimented" an entire industry, "suppressed" production of unpatented products, "stabilized" prices on unpatented products and "squeezed out" a class of distributors (333 U. S. at 400-401).

The Court found that patent infringement suits and threats of such suits by USG resulted in industry-wide license agreements which brought about regimentation of the gypsum industry (333 U. S. at 371).[6]

In addition, the Court also found upon the undisputed facts that defendants had adopted a delivered price-basing point system, specified board sizes, prescribed minimum quantities, regulated terms of delivery, prohibited consignment sales and in other ways minutely regulated manufacture and distribution in the entire industry (333 U. S. at 382, 383).

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6 Such agreements included those upon which USG sued National and the other defendants.

On the basis of these findings and conclusions, and since the District Court's order of dismissal had come at the end of the Government's presentation of its evidence, this Court reversed the order of dismissal, and remanded the case for further proceedings in conformity with its opinion. 333 U. S. at 401-402.[7]

3. *Proceedings on remand after the first decision of this Court.* Following remand of the case to the District Court, the Government filed a motion for summary judgment (R. 35) and the defendants filed a proffer of proof (R. 36-52). On June 29, 1948, the District Court heard argument on the Government's motion in relation to defendant's proffer (R. 54-137). The Court then orally ruled that the proffered proof gave rise to no genuine issue as to any fact material to an adjudication that the defendants had violated the Sherman Act, and that summary judgment should be granted (R. 137-138). Chief Judge Stephens dissented from these rulings (R. 138-140, 478).

Thereafter, the Government filed proposed findings of fact and conclusions of law (1950 R. 207-249) and a pro-

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7 National, under a license agreement made in 1929 with USG, was required to pay USG royalties on all gypsum wallboard and plasterboard, unpatented as well as patented, manufactured and sold until the date of the expiration of the last patent covered by the agreement—Roos, Pat. No. 2,017,022 (hereinafter referred to as the Roos Patent)—which expired October 7, 1952 (R. 605). National paid all royalties due under its agreement with USG until March 10, 1948 when royalties for the month of February, 1948 would have become due (R. 607). Following this Court's decision of March 8, 1948, that its license agreement was unlawful (333 U. S. 364), National chose to stop paying royalties (R. 607). It paid no royalties until it was able to secure a license agreement sanctioned by the Final Decree of May 15, 1951 (R. 607). Some of the other defendant gypsum companies, including Ebsary, Newark and Certain-teed, also failed to pay royalties to USG under their unlawful licenses starting at approximately the same time (R. 607).

posed judgment (R. 157-166). Article VII of the Government's proposed judgment sought cancellation of the license agreements (R. 163; Devel., p. 4).[8]

Subject to its objection to the entry of any judgment for the plaintiff (1950 R. 163), USG filed proposed findings and conclusions (R. 188). Article IV of USG's proposed judgment read as follows (R. 192, 393; Devel., p. 4):

> "1. The minimum price provisions of the Patent Licenses are hereby declared to be illegal.
>
> "2. Each of the Patent Licenses is hereby cancelled and terminated."

At the hearing on the decree proposals, the Government proposed to amend that portion of its proposed decree cancelling the license agreements, by substituting a declaration that the patent license agreements were "unlawful under the anti-trust laws and illegal, null and void" (R. 406-407).

After the hearing, memoranda were filed by various of the parties. In their memoranda, National and Newark also specifically proposed that the decree adjudicate the license agreements "illegal, null and void" (R. 426, 427, 428, 432).

In its reply memorandum, filed July 25, 1949, USG strenuously opposed these proposals, stating in its reply memorandum (R. 437):

> "The defendant licensees can have no purpose in making the suggestion that each patent license be ad-

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8 "Devel." is a short designation for a separate document entitled, "Development of Final Decree and Position of Parties with Respect Thereto," served with this Brief, and made available by National to the Court at the oral argument. For a description of its contents, see note 10, page 13, *infra*.

judged illegal except to obtain some advantage with respect to the use of the patents. *They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision* [*of March 8, 1948*]." (emphasis added)[9]

This opposition of USG was obviously grounded on USG's justifiable fear that the adjudication of the license agreement as "illegal, null and void" would relieve its licensees from accounting to USG for the use of its patents during the period prior to the entry of the decree by the District Court.

4. *The Decree of November 7, 1949.* After consideration of these representations the District Court entered a Final Decree (R. 471). Article II of that decree enumerated all the patent license agreements, including the 1929 agreement between USG and National, subject to the decree (R. 473).

Article IV of the decree provided that (R. 475; Devel., p. 5):

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9 The reply memorandum of USG also stated (R. 439-440):

"• • • Newark seeks a provision that each of the license agreements be adjudged unlawful under the anti-trust laws and illegal, null and void, which not only goes beyond the scope of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum."

Nevertheless, despite these statements in its Reply Memorandum, USG has contended in these proceedings that the licensees, speaking through Mr. Dallstream, counsel for Celotex, had disclaimed that their seeking an adjudication that the patent license agreements are illegal, null and void was intended to avoid paying royalties for the pre-decree period. This contention by USG is discussed more fully at pp. 49-50 *infra*.

"Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void."

Article VI of the 1949 Decree directed USG, within 90 days of its effective date, to grant upon application a non-exclusive license under USG's then owned gypsum board patents at a royalty not in excess of the royalty fixed in the license agreements declared illegal, null and void (R. 476; Devel., p. 9).

Article VIII of the decree provided that USG could satisfy the obligation thus imposed upon it by Article VI through the tender of a license agreement containing provisions set forth in forms of agreement "ordered filed herein" and "hereby approved" (R. 476; Devel., p. 9).

As Article VIII indicated, USG had drawn up new forms of license agreements "in connection with consideration of a form of a decree" (R. 813) and as an incident of the adoption of that decree. USG never made a commercial tender of this form of license agreement to any of its licensees. The proposed license under Article VIII could not have become effective until the entry of a final decree (Finding 22, R. 1150). Such a decree, as will be shown, was not entered until May 15, 1951 (R. 562). Operation of the 1949 Decree was stayed by appeal brought by USG and two of its officers to this Court (R. 504). Consequently, USG never offered a new and innocent license agreement to its licensees until May 15, 1951.

5. *The second appeal to this Court.* The basis of USG's appeal was that on the record upon which the District Court granted the Government's motion for summary judgment there was a substantial controversy as to material facts on the issue of defendants' violation of the

Sherman Act and therefore the District Court erred in entering judgment (R. 505-508). This Court dismissed USG's appeal on May 29, 1950 (339 U. S. 959).

The Government also appealed on the ground that the Decree of November 7, 1949 failed to afford adequate relief against the defendants (R. 509-511). On May 29, 1950, the same day on which it dismissed USG's appeal, this Court noted probable jurisdiction (339 U. S. 960), and at the same time enjoined the defendants, pending further order from the Court, from

> "(1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof" (339 U. S. 960).

6. *The second decision of this Court.* The Government's appeal sought to broaden and enlarge the District Court's decree. Its purpose was to terminate and dissipate the far-reaching effects of monopolization and restraint of trade in the gypsum industry which had been achieved through the illegal license agreements between USG and its licensees. The issues raised by the Government in its appeal are summarized by this Court at 340 U. S. 76, 82.

In its decision (340 U. S. 76), this Court reviewed the procedures below and upheld the summary judgment. It found the violations to consist of monopolization and ac-

tion "in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices" (340 U. S. 76, 84).

In discussing the duty of the District Court in formulating a decree, this Court said (340 U. S. 76, 88-89):

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. * * * The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct."

This Court went on to say (340 U. S. 76, 89):

> "In resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur."

The Court then considered and granted most of the Government's requests for expansion of the District Court's decree.

7. *The Final Decree of May 15, 1951.* Pursuant to this Court's second decision, the District Court entered its Final Decree on May 15, 1951 (R. 562).

Article II of that decree enumerated all the license agreements subject to the decree, including those between USG and National, and added "any supplement or amend-

ment to any of said patent license agreements" (R. 564-566; Devel., p. 3).[10]

Article IV, in language identical with that found in Article IV of the November 7, 1949 Decree, adjudged these agreements "unlawful under the anti-trust laws of the United States and illegal, null and void" (R. 567; Devel., p. 5).

Article V enjoined defendants from entering into or performing any agreement to fix, maintain or stabilize "by patent license agreements" or other means, prices, terms or conditions of sale of gypsum products and from engaging in a variety of practices affecting prices or distribution of gypsum products (R. 567; Devel., p. 7).

Article VI provided for compulsory licensing at reasonable, non-discriminatory royalties (R. 567-570).

Finally, Article X provided:

> "Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith". (R. 571-572; Devel., p. 13)

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10 "Devel." (See note 8, p. 8 *supra*) presents in columnar form the development of the Final Decree and the positions of the parties with respect thereto as follows: (1) Plaintiff's Original Proposed Decree Submitted on Granting of Motion For Summary Judgment; (2) U. S. Gypsum's Proposed Decree Submitted on Granting of Motion for Summary Judgment; (3) District Court Decree, Nov. 7, 1949; (4) Plaintiff's Proposed Decree on Appeal from District Court Decree; and (5) Final Decree, May 15, 1951.

A comparison of the Decree of May 15, 1951 with the 1949 Decree shows that the 1949 Decree was considerably expanded in almost every respect (see Devel.):

1. The 1949 Decree was limited to gypsum board. The 1951 Decree was expanded to include gypsum products. (Compare 1949 Decree Art. II(3) *with* 1951 Decree Art. II (2 and 3), Devel., p. 3.)

2. The 1951 Decree extended the injunctive provisions of the 1949 Decree to include the entire United States instead of merely the eastern territory, and further enjoined, in addition to the price-fixing practices enjoined in the 1949 Decree, the exclusion of jobbers, the standardization of industry sales practices and a delivered price-basing point system. (Compare 1949 Decree Art. V *with* 1951 Decree Art. V, Devel., p. 7.)

3. Major changes were made in the scope, form and time of the compulsory licensing provisions. The 1949 Decree provided for compulsory licensing only of the patents licensed by USG to the defendant licensees, at a royalty not to exceed the royalty provided in the illegal agreements. Moreover, the license was available only to applicants who applied within 90 days from the Decree and who agreed to give USG price and quantity figures. The expanded 1951 Decree provided for compulsory licensing of *all* USG patents relating to gypsum board then owned or acquired within 5 years from the Decree, with no time limit for application; and gave the applicant the right to apply to the court for a determination of a reasonable royalty. The requirement that the licensee supply USG with price and quantity figures was deleted and instead USG was given merely a right of inspection by an independent auditor solely to determine the amount of

royalties due. (Compare 1949 Decree Art. II(2) *with* 1951 Decree Art. II(4), Devel., p. 3. Compare 1949 Decree Art. VI *with* 1951 Decree Art. VI, Devel., pp. 9, 11. Compare 1949 Decree Art. VIII at Devel., p. 9, and license provisions at R. 483, 489, 494 *with* 1951 Decree Art. VI(2)(d) at Devel., p. 9.) Thus, only by May 15, 1951 did the Roos Patent become available for licensing to the public under reasonable royalties and devoid of restrictive provisions.

B. *Events since the entry of the Final Decree of May 15, 1951*

Soon after entry of the Final Decree, National executed a new agreement with USG, made retroactive to May 15, 1951, pursuant to which it obtained a license under the Roos Patent (R. 607). So did Certain-teed (R. 607). Thereafter, both these companies paid royalties to October 7, 1952, the expiration date of the patent.

These new agreements did not apply to the period prior to the May 15, 1951 Decree (p. 607). Ebsary and Newark, however, did not obtain a license agreement after the Final Decree of May 15, 1951 and did not make further payments to USG (R. 607).

C. *The USG suits for royalties under the unlawful license agreements and under alternative theories*

1. *USG's complaint against National in the Northern District of Iowa.* On January 28, 1953, USG commenced its action in the U. S. District Court for the Northern District of Iowa against National, claiming royalties under the unlawful license agreement of 1929 in the amount of $1,600,000. The complaint is in five counts, each of which seeks recovery for the use of the Roos Patent for the period February 1, 1948 to May 15, 1951 during which

National did not pay royalties. Each seeks recovery in the identical amount (R. 614-622; App. A).

Count I is based entirely on the unlawful license, and claims royalties in the amount of $1,600,000 (R. 614-616, 769-771; App. A).[11]

In Count II, USG alleges that, on February 1, 1948, the parties to the license agreed to discontinue compliance with its provisions except that, beginning February 1, 1948, National would account for and pay to USG under the licenses a "royalty of one per cent (1%) of National's selling price" on gypsum board actually manufactured by National and embodying or making use of the inventions disclosed in the Roos Patent. The amount due under this agreement is said to be $1,600,000 (R. 616-617, 771-772; App. A).

In Count III of its complaint, USG alleges that on or about February 1, 1948, National repudiated the license agreement of 1929, that National thereafter made use of the Roos Patent and that in consideration of such use National promised but failed to pay USG the reasonable value of the use of USG's patent in the amount of $1,600,000 (R. 618-619, 772; App. A).

Count III has sometimes been characterized by counsel for USG as a *"quantum meruit"* count (compare USG Brief pp. 17-18 *with* Jurisdictional Statement p. 13 and R. 1188). It was characterized by the Court below as an

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11 USG before this Court now explains that it did not attempt to enforce the royalty provisions of the patent license agreement since it claimed compensation only on patented board (see USG Br. 14, note), whereas, in past, under the agreement, it had insisted that royalties be assessed on unpatented board as well. Despite this waiver of royalties on unpatented board it pleaded National's obligation to pay royalties under the illegal agreements, as a glance at its Complaint will disclose (see App. A).

"indebitatus assumpsit" count (Finding 28, R. 1153; Conclusion 14, R. 1157).

In Count IV, USG alleges that on January 28, 1953, the defendant, National, being indebted to USG in the amount of $1,600,000 for the use of the Roos Patent between February 1, 1948 and May 15, 1951, promised to pay USG but has not done so (R. 619-620, 772-773; App. A).

In Count V of its complaint, USG charges infringement by National of the Roos Patent for the period February 1, 1948 to May 15, 1951. USG alleges that by reason of that infringement, it has been damaged in the sum of $1,600,000 (R. 620-621; App. A).

2. *Subsequent proceedings connected with the Iowa Action.* National filed its answer and amended answer to USG's complaint and amended complaint in the United States District Court for the Northern District of Iowa and moved for a stay of further proceedings until the determination of the issues raised by its petition, hereinafter described in the District Court for the District of Columbia (R. 710-725). On July 13, 1953 the District Court for the Northern District of Iowa granted the motion for a stay (R. 766).

3. *Other actions brought by USG.* As already noted, USG also asserted its illegal patent license agreements against other licensees. These actions were brought in various federal courts as follows:

On February 27, 1953, in the United States District Court for the Southern District of New York against Ebsary (R. 622); on February 27, 1953, in the United States District Court for the District of New Jersey against Newark (R. 634); on or about March 18, 1953, in

the United States District Court for the Northern District of Iowa against Certain-teed (R. 646).[12] Neither Newark nor Ebsary entered into license agreements with USG after May 15, 1951 and, consequently, the actions brought against these two companies, unlike those brought against National and Certain-teed which are limited to the pre-decree period, plead liability for non-payment of royalties until the dates of the filing of the complaints (R. 632, 644-645).

D. *Petitions for orders, modifications or directions for the enforcement, construction or carrying out of the Final Decree of May 15, 1951*

As already noticed, National filed a petition in the District Court of the District of Columbia on March 25, 1953 seeking enforcement, implementation and modification of that Court's Final Decree of May 15, 1951 (R. 604). Petitions similar to National's were filed in that Court by Certain-teed, Newark and Ebsary on April 22, 1953, May 15, 1953 and June 3, 1953, respectively (R. 657, 666, 669).

On June 30, 1953, the United States of America also filed a petition (R. 739). It was entitled "Petition of United States for Orders or Directions for the Construction, Carrying Out or Enforcement of the Final Decree of May 15, 1951." In this Petition, the Government asked the District of Columbia Court to

> "enjoin USG from asserting any claim, and from instituting, threatening to institute, or maintaining any

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12 Beginning in or about July 1952 USG asserted royalty claims against Celotex for the period February 1, 1948 to May 15, 1951, and on July 25 and September 26, 1952 it asserted an infringement claim against the Kaiser Company in which it said that it "reserved all rights of recovery for any infringement prior to" May 15, 1951 (R. 610, 655-657, 786).

action, based, in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof" (R. 740-741).

The Government took "no position" as to whether USG's claims other than those expressly based on the unlawful licenses were, or should have been, barred by the decree of the Court below (R. 816). USG construes the silence of the United States as to the counts of its Iowa complaint to mean that the Government agrees with its contentions (USG Br. 31, 43, 44, 69). The United States' Brief quoted immediately above shows that this assertion does violence to the explicit statement made by the Government.

E. *Further proceedings in the District Court*

On June 9, 1953, a pre-hearing conference was had before the District Court (R. 673). Briefs and answers were filed (R. 774-816) and on January 12 and 13, 1954, the matter was argued (R. 819-974). On July 6, 1954 the Court issued its opinion, hereinafter described (R. 975).

On December 4, 1954, the District Court entered its findings of fact and conclusions of law consonant with its opinion (R. 1144-1158). On the same day it entered its decree modifying the Final Decree of May 15, 1951 by adding to Article V thereof a paragraph reading:

"Defendant United States Gypsum Company is hereby ordered and directed to discontinue and to dismiss, with prejudice to United States Gypsum Company, its pending actions as follows: against National Gypsum Company, in the United States District Court for the Northern District of Iowa; against Certain-teed Products Corporation, in the same District Court; against Newark Plaster Company, in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company, Inc., in the United States

District Court for the Southern District of New York" (R. 1159).

Motion for a new trial was made (R. 1160), briefed (R. 1163-1214), argued (R. 1214-1335), and denied (R. 1335-1337).

F. *The District Court's Opinion, Findings and Conclusions*

Because USG has misconstrued the District Court's ruling in several important respects, a full statement of its opinion, findings and conclusions is made.

The District Court held it had jurisdiction to pass on the issues raised by petitioners on these grounds:

1. Article X of the Final Decree expressly gives the Court power to construe and enforce its Decree (Conclusion 2, R. 1155).

2. The Court has the inherent power of a court of equity to compel obedience to its decree (Conclusion 3, R. 1155).

3. The Court has power to modify its decree to effectuate its basic purposes (Conclusion 10, R. 1157).

4. The Court has power to prevent multiplicity of actions. These actions are the four suits by USG, and also claims against Celotex and Kaiser; each involves the meaning of the Final Decree, and affects the Final Decree's effectiveness (Conclusion 5, R. 1155).

The District Court also held that petitioners had standing under the decree, particularly under Article X, to activate the Court's jurisdiction (Conclusion 1, R. 1155).

On the merits, the Court barred prosecution of the first two counts of USG's suits because they "clearly violate

the express provisions of Article IV of the final decree" (Conclusion 11, R. 1156). The third count was barred, because it was "but a left-handed, indirect method for recovering the royalties provided in the illegal license agreements" (Conclusion 14, R. 1157).

The District Court held the Decree should be modified to bar USG's infringement counts "both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case" (Conclusion 16, R. 1158). In respect of the "practical situation" it noticed this Court's sweeping findings concerning USG's use of its patents to control the gypsum industry (Finding 5, R. 1145), and the broad range of relief which this Court felt it was necessary for the lower court to grant (340 U. S. 76, 88) (R. 1003-1006). It observed that this Court's rulings as to illegality of the license agreements created for USG's licensees the "perilous" choice of either continuing payments under the illegal agreement or refusing to pay (Finding 7, R. 1145). The Court also noticed that the manufacturing plants of the licensees had been organized "for use of these patent-covered methods" (Finding 6, R. 1145).

The District Court then elected to pass on the question of whether USG had purged itself of its patent misuse, as shown by the record in this case, rather than to let such issue be determined by the various District Courts in which it had already been, or would be, raised. It found that, as a matter of law, USG could point to nothing which would prove purge prior to May 15, 1951, and therefore all USG claims should be barred on the ground of unpurged misuse (Conclusions 11, 12, R. 1157).

The District Court then made an additional independent ruling on the merits. Because USG's suits included claims based on the license agreements expressly held illegal by

this Court and by the District Court's Final Decree (340 U. S. 76; R. 567), the Court below found that such a claim was a *fresh misuse,* which not only barred all claims for the period before the 1951 Decree, but also barred the post-decree claims against Newark and Ebsary (Conclusion 13, R. 1157).

Contrary to USG's description (USG Br. 19), the Court's finding of *fresh misuse* was independent of its finding of *unpurged misuse.*

USG is also in error when it asserts repeatedly (USG Br. 21, 33, 37) that the District Court took jurisdiction to determine the issue of purge because of its view that USG's suits constituted fresh or continuing misuse. The District Court assumed jurisdiction because of the factual situation presented by the *multiple* USG suits and claims raising similar issues (Conclusion 5, R. 1156).

USG is again wrong in indicating that the District Court barred its so-called *"quantum meruit"* claim solely because of USG's suits (USG Br. 19). The District Court barred the *quantum meruit* claim specifically because of unpurged misuse (Conclusions 11, 12, R. 1157), not because of its fresh misuse holding (Conclusions 13, 15, R. 1157, 1158).

Judge Cole dissented from the decision, findings and conclusions on the ground that only the United States could invoke the jurisdiction of the court; that since its petition was limited to the two contract counts, there would remain for adjudication in the private suits the remaining counts; and, consequently, that the court should not issue its injunction (R. 1015).

G. *The Appeal to this Court*

On USG's appeal to this Court, from the December 4, 1954 order of the District Court, National, Certain-teed

and the United States of America appear as appellees. Newark and Ebsary, while the present appeal was pending, settled the infringement action brought against them (USG Br. 3, n.). Counsel for National have been informed by counsel for Newark (a) that Newark was guarantor of patent liabilities of Ebsary and that, after the decision in the Court below, the assets of Newark were acquired by Allied Chemical and Dye Corporation, and the assets of Ebsary were acquired by the Rubberoid Corporation, and (b) that the settlements of the infringement action were made in connection with the sale of such assets.

Summary of Argument

I

The District Court had jurisdiction to enforce, construe and modify its Final Decree of May 15, 1951 coming from (a) the "All Writs" provision of the Judicial Code (28 U. S. C. 1651(a)), (b) the reservation of jurisdiction in Article X of the Final Decree, and (c) its inherent equity powers. USG's action in the different federal courts in at least the first two counts flouted the Court's decree of May 15, 1951, and in the other three attempted to circumvent it. The District Court had ample power to construe its decree, to compel compliance with it, and to protect it. Jurisdiction is not ousted by casuistic differentiations of the forms of action.

It also had the power to modify the decree in order to effectuate its basic purposes, e.g., *Chrysler Corporation* v. *United States,* 316 U. S. 556, 562 (1942). Its flexible equity powers were sufficient to enable the Court to apply appropriate relief to new circumstances.

The Court below, in exercising its power to modify its decree, did no more than to give effect to the purposes of the Decree of May 15, 1951, and to apply them to new circumstances. This being so, it is a matter of indifference whether or not the modification can be construed to be an "enlargement" of the decree, *Hughes* v. *United States,* 342 U. S. 353, 357 (1952).

Only the Court below had available to it the power to sterilize against a further multiplicity of actions which was threatened by USG's pending suits and notices of infringement.

The United States of America, National and all other parties in the District Court, had standing to activate the Court's jurisdiction. All were parties to the decree and jurisdiction had been reserved for the express purpose "of enabling any of the parties * * * to apply to this Court at any time for * * * orders, modifications" etc. (Art. X, p. 13, *supra*). Cases having to do with the standing of strangers to a decree on which appellant relies are irrelevant. Standing to petition below is governed by *Missouri-Kansas Pipe Line Co.* v. *United States,* 312 U. S. 502 (1941).

It is also a matter of indifference in respect of the power of the Court below that the United States sought relief concerning only the first two counts of USG's Iowa complaint. Obviously, once the jurisdiction of the Court has been activated it is not within the control of the parties to restrict the Court's exercise of its power in modifying the decree.

II

The District Court appropriately exercised its power to interpret and enforce its decree by enjoining USG from prosecuting the Iowa action. Counts I, II and III were properly enjoined because their prosecution violated Article IV of the Final Decree of May 15, 1951 which declared that the patent licenses and all supplements and amendments thereto on which these counts were founded were "illegal, null and void."

The declaration of illegality in Article IV of the 1951 Final Decree not only barred Counts I, II and III, but also barred all other means of enforcing USG's misused patents. This conclusion must be drawn from the fair intendment of the entire decree in the antitrust proceeding. The Government's amended complaint contained a prayer to enjoin USG from prosecution of infringement suits or "otherwise" to collect royalties on its misused patents. The prayer was never withdrawn but, because no infringement suits were brought or threatened by USG at the time of entry of the Final Decree, it was not thought necessary then to enjoin infringements. It was thought sufficient to adjudicate the license agreements to be nullities.

USG had sought a less restrictive declaration providing that the price-fixing provisions be declared illegal and the agreements cancelled. It strenuously resisted the proposal by the Government and the other appellees in this case that the agreements be declared illegal in their entirety. The adjucation of illegality, found in Article IV of the Final Decree, would be rendered nugatory if USG could now recover, on some other legal theory, the same amounts claimed to be due to it under the unlawful licenses.

III

The District Court acted within its discretion in modifying the Decree to bar USG's Counts IV (*quantum meruit*) and V (infringement).

A *quantum meruit* claim does not lie for use of a patent. In this case it cannot lie for the additional reason that the underlying transaction was wholly illegal.

The similarity of the facts in this case to the *Hartford-Empire* (323 U. S. 386) and *National Lead* (332 U. S. 319) cases justifies modification of the decree to enjoin USG's infringement claims for the period preceding the 1951 Decree. Additional facts—the use of infringement suits by USG to organize the industry, the unavailability of an unrestricted license, at a reasonable royalty, under USG's misused patent, until the 1951 Decree, the "perilous" position of the licensees, and USG's flouting of Article IV of the decree—also support this remedy.

If USG had brought its infringement suits prior to the 1951 Decree, the remedy of injunction would clearly have been appropriate. USG cannot prevent this appropriate modification by having delayed its infringement claims until years after entry of the 1951 Decree.

IV

The District Court properly enjoined USG from enforcing its patents because of unpurged misuse. It correctly ruled that as a matter of law USG could not show that it had purged itself prior to the entry of the 1951 Decree. This Court made findings of misuse in the present proceeding as sweeping as has ever been made in any case. USG

could not recover for its misused patents unless it showed that purge had taken place prior to the entry of the Final Decree of May 15, 1951, since the asserted liability of National is only for the period up to that date.

That burden USG utterly failed to meet. It asserted only five specific claims of purge, all of which the Court below correctly found were insufficient in law to constitute a purge.

USG, having failed below to offer proof of purge sufficient in law—or even to state what that proof would be—had no right to a hearing for the purpose of taking testimony concerning purge. USG had ample opportunity in the Court below to assign other and different bases for its claim of purge, and, having failed to do so, it would be a waste of time to conduct a hearing on belated generalized assertions that purge can be proved. The processes of the Court are not so to be trifled with and a remand from this Court to take additional testimony could accomplish nothing more than further to prolong a proceeding which has been buffeted between this and the Court below since 1940. USG's claim to purge was disposed of on the record of the Court below. The numerous authorities denying a hearing where no genuine specific issue of material fact is alleged should here be controlling.

V

The District Court correctly ruled that USG's suits constituted a fresh misuse, because the suits sought to enforce the illegal license agreements.

Title 35, Section 271(d) does not, contrary to USG's contention, preclude a holding that a suit on an illegal license

agreement is a patent misuse. Rule 8 of the Rules of Civil Procedure likewise does not, contrary to USG's contention, preclude such a holding.

I

The District Court had jurisdiction to enforce, construe and modify the Final Decree of May 15, 1951.

The sources of power for the modification of its decree by the three-judge court are so fundamental that extended discussion of them is unnecessary. The fountainhead of power is the "All Writs" provision of the Judicial Code, 28 U. S. C., Section 1651(a).

A more direct source of power is the reservation of jurisdiction over the parties "for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith," found in Article X of the 1951 Final Decree (R. 571-2, 604; Devel., p. 13).

A third source is the power inhering in a court of equity to modify its decree in order to effectuate its basic purposes. *United States* v. *Swift & Co.*, 286 U. S. 106, 114 (1932).

When USG brought its action against National in the District Court in Iowa, it flouted boldly the Decrees of November 7, 1949 and May 15, 1951: in Counts I and II, by seeking to enforce the illegal license agreement; and in the other three counts of its complaint by seeking the same recovery under alternative legal theories.

A. *The District Court had the power to interpret its own decree, to determine whether these claims would impair the integrity of its decree, and to prevent possible nullification of it in another forum.*

Judge Prettyman writing for the Court of Appeals for the District of Columbia Circuit said in *Land* v. *Dollar*, 190 F. 2d 366 (D. C. Cir. 1951), at page 373 (cert. dismissed on motion, 344 U. S. 806):

> "• • • to declare that one court can nullify the final decrees of another court which had jurisdiction • • • would mean chaos and the complete collapse of every semblance of orderly, judicial process, a consummation to the irreparable damage of the public interest."

Similarly, Judge Garrecht writing for the Court of Appeals for the Ninth Circuit in *Holmes* v. *Rowe*, 97 F. 2d 537, 539 (9th Cir. 1938), has asserted a District Court's complete power to protect its judgment or decree in these words:

> "A review of the decisions discloses that a Federal District Court, once having obtained jurisdiction of a controversy, and having rendered a decision in the matter, has complete power to protect the judgment or decree which it has rendered, and may go so far as to enjoin an action entertained in the state court by a litigant, involving the same subject-matter, when such action may in any way interfere with, or nullify the effect of said judicial determination." [13]

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13 Decisions in this and the lower federal courts to the same effect are numerous and, among others, include the following:

Kerotest Mfg. Co. v. *C-O-Two Co.*, 342 U. S. 180, 183-184 (1952);

Toledo Scale Co. v. *Computing Scale Co.*, 261 U. S. 399, 425 (1923);

Crosley Corp. v. *Hazeltine Corp.*, 122 F. 2d 925 (3rd Cir. 1941); *cert. denied*, 315 U. S. 813 (1942);

Guaranty Trust Co. v. *Broadway & 7th Avenue R. Co.*, 43 F. 2d 130 (S. D. N. Y. 1930);

Swift v. *Black Panther Oil & Gas Co.*, 244 Fed. 20 (8th Cir. 1917).

See also:

Harkrader v. *Wadley*, 172 U. S. 148, 163-164 (1898);

In re Georgia Power Co., 89 F. 2d 218, 221 (5th Cir. 1937), *cert. denied* 302 U. S. 692 (1937).

Not only does the Court have the power to protect its decree, but it has been held that the Court is under a duty to exercise the power. E.g., *Crosley Corp.* v. *Hazeltine Corp.*, 122 F. 2d 925 (3rd Cir. 1941), *cert. denied* 315 U. S. 813 (1942); *Swift* v. *Black Panther Oil & Gas Co.*, 244 Fed. 20, 27-28 (8th Cir. 1917); *Missouri Pac. Ry. Co.* v. *Jones*, 170 Fed. 124, 126 (W. D. Mo. 1909), appeal dismissed, 178 Fed. 1003 (8th Cir. 1910); *Iron Mountain R. Co.* v. *Memphis*, 96 Fed. 113 (6th Cir. 1899).

The fact, as urged by appellant, that the Iowa Court might be equally free to construe the 1951 Final Decree (USG Br. 34) and that National in Iowa could have asserted the decree as a defense to the USG suit does not detract from the power of the District of Columbia three-judge court to compel obedience to its decree, or make the exercise of that power any less proper. *Kessler* v. *Eldred*, 206 U. S. 285 (1907); *Gunter* v. *Atlantic Coast Line R.R. Co.*, 200 U. S. 273, 292-293 (1906); cf. *Root* v. *Woolworth*, 150 U. S. 401 (1893); *United States* v. *Reading Co.*, 300 Fed. 477 (E. D. Pa. 1924); *Wilson* v. *Alexander*, 276 Fed. 875, 881 (5th Cir. 1921).

The fact that the Court below was by its injunction compelling obedience to the *declaratory* provisions of Article IV of its decree in no way subtracted from its power to issue the injunction. *Dugas* v. *American Surety Co.*, 300 U. S. 414, 427 (1937). In *Local Loan Co.* v. *Hunt*, 292 U. S. 234 (1934), this Court said at 239-240:

> "That a federal court of equity has jurisdiction of a bill ancillary to an original case or proceeding in the same court, whether at law or in equity, to secure or preserve the fruits and advantages of a judgment or decree entered therein, is well settled."

We do not press the point that the three-judge court for the District of Columbia had "some paramount jurisdiction over the controversy arising out of the corporate appellees' use of USG patents" (USG Br. 32). We do urge that a court with supervisory powers over its own decree need not sit idly by when the decretal provisions are being subverted through a defendant's use of the process of another court. This distinction highlights the irrelevancy of *Aluminum Co.* v. *United States*, 302 U. S. 230, 232 (1937) and other *res judicata* cases relied upon by appellant at pages 32-33 of its brief.[14] We are here concerned with the power of the *first* court, and not that of the *second*, to act.

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14 *Aluminum Co.* v. *United States*, 302 U. S. 230 (1937) (Cited USG Br. 32) held no more than that a second prosecution under the antitrust laws is not barred by an earlier one where the two suits were "dissimilar in respect of parties defendant, subject matter, issues and relief sought" (at p. 232).

The *Northern Securities* cases, *Northern Securities Company* v. *United States*, 193 U. S. 197 (1904), *Harriman* v. *Northern Securities Company*, 197 U. S. 244 (1905) constituted merely a ruling on the merits that the action complained of was consistent with the prior decree. No question was there raised as to whether, and under what circumstances, one federal court should construe the decree of another.

In *Standard Oil Co.* v. *Markam*, 64 F. Supp. 656 (S.D.N.Y. 1945), modified and aff'd sub. nom., *Standard Oil Co.* v. *Clark*, 163 F. 2d 917 (2d Cir. 1947), *cert. denied*, 333 U. S. 873 (1948) the Court of Appeals for the Second Circuit decided that on the special facts of that case the New York Court (the second court) could hold on to jurisdiction since it "was familiar with all details of this complicated question, which had never been before the

The first two counts of the Iowa complaint are admittedly on contract; the rest raise issues in *quantum meruit*, infringement and, disputedly, in *indebitatus assumpsit*. The power of the District Court reaches not only to the direct attack on its decree found in the first two counts of the Iowa complaint, but also to determine whether theories of cause of action obviously designed to bring about a recovery of the precise contract amount constitute a circumvention of the decree. Certainly, in the present era of one form of action, jurisdiction is not to be granted or denied merely on the basis of casuistic differentiations in the forms of action when the purposes of all the actions are identical. (See USG Br. 31.)

B. *The District Court had power to modify its decree in order to effectuate its basic purposes.*

If the injunction of the District Court is construed as more than a mere "construction and carrying out of" the Decree of May 15, 1951, and designed "for the enforcement of compliance therewith" (Art. X of Decree, R. 571), it was, nonetheless, within the Court's power to grant. The District Court has broad power to modify and reshape its injunction in order to effectuate "the basic purposes of the original" decree. *United States* v. *Swift & Co.*, 286 U. S. 106 (1932), *Chrysler Corp.* v. *United States*, 316 U. S. 556, 562 (1942).

The power to modify was reserved by Article X of the Final Decree. It also inheres in a court of equity irrespective of the terms of Article X.

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court in New Jersey in its present and true setting" (163 F. 2d at p. 934). That case casts no doubt on the general proposition here urged—that the court which makes the decree is the best qualified to construe it and decide whether any implementation is required.

Appellant, however, urges that Article X is not a sufficient reservation of jurisdiction to enable the District Court to modify the decree (USG Br. 28-30). Article X is set forth in its entirety at page 13 above. Its language admits of no doubt. It enables any of the parties to apply to the Court at any time "for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith." USG urges—in spite of this clear statement—that this is not a reservation of the power "to modify." If a party may by the expressed language of the decree apply to the Court for a modification of the decree, how can it be argued that the Court has not reserved the power to modify it?

In *United States* v. *National Lead Co.*, 332 U. S. 319 (1947), a reservation of jurisdiction clause was virtually identical with that in the case at bar (332 U. S. at 334, note).[15] This Court indicated that the provision included the power to "modify" (332 U. S. at 351).

Even when the original decree has explicitly reserved the power to modify, the courts have not felt it necessary to rely particularly on that reservation. Thus, when in *Hughes* v. *United States*, 342 U. S. 353, 357 (1952), the Government sought relief on both the "provisions in the decree reserving jurisdiction to amend" and on "the inherent equity powers of the court" the Supreme Court simply said that it entertained "no doubt concerning the

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15 "Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person or corporation that may hereafter become bound, in whole or in part, thereby to apply to the Court at any time for such further orders, modifications, vacations or directions as may be necessary or appropriate."

District Court's power." See also *Chrysler Corp.* v. *United States, supra,* 316 U. S. at page 567; *United States* v. *Swift & Co., supra,* 286 U. S. at page 114.

It is difficult to understand why *United States* v. *International Harvester Co.,* 274 U. S. 693 (1927) is cited by USG in support of its argument that an express reservation of power "to modify" is essential (USG Br. 29), for in that case, the ruling of this Court went to the merits and not to power. The modification sought was denied because the Court found that the basic purpose of the decree had been achieved and, therefore, amendment was neither necessary nor appropriate (274 U. S. at pp. 702-703).

Even were Article X of the decree not a sufficiently comprehensive reservation of jurisdiction to embrace the relief sought by National and granted by the Court below, it is clear that the Court would still have possessed the power to act as it did. As this Court said in *United States* v. *Swift & Co., supra,* 286 U. S. at page 114:

> "If the reservation [contained in Article X] had been omitted, power there still would be by force of principles inherent in the jurisdiction of the chancery."

The power to modify the decree to be sure is not an unlimited one as the Court below carefully recognized (Conclusion 10, R. 1157). The argument of USG (USG Br. 27-32), however, that the Court may not modify a decree to enlarge prohibitions but only to contract them would remove from courts of equity their important historic powers. This Court had occasion to say in *Hecht Co.* v. *Bowles,* 321 U. S. 321, 329 (1944):

> "The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it."

Throughout the years the prime characteristics of courts of equity have been their flexibility and ability to meet new circumstances as they arise and to apply to them appropriate relief. There is no support in the cases for the limitation USG seeks to impose on these equity powers. See *Root* v. *Woolworth*, 150 U. S. 401, 410-418 (1893) and *United States* v. *Swift & Co., supra*, 286 U. S. 106 at 114.

We shall show hereafter that the modification of the decree does no more than give effect to the Final Decree, applying its prohibitions to a new situation which would have been prohibited by the decree itself had the minds of the parties been addressed to it at the time of entry of the decree (pp. 48-51 *infra*). Consequently, we urge that the modification by the court below does not constitute an enlargement. We submit, however, that nothing hinges on this question since the court below had the power to do whatever was necessary to effectuate the basic purposes of the decree.

Chrysler, supra, 316 U. S. at 562, teaches that the applicable test to a change in a decree is not whether its scope is enlarged or contracted, but whether the change serves to effectuate the decree's basic purposes.[16]

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16 Other authorities have reached a similar result. *Armstrong* v. *DeForest Radio Telephone & Telegraph Co.*, 10 F. 2d 727, 728 (2d Cir. 1926), *cert. denied*, 270 U. S. 663 (1926).

See also *S. C. Johnson & Son* v. *Johnson*, 175 F. 2d 176, 177 and note 3 (2d Cir. 1949), *cert. denied*, 338 U. S. 860 (1949), recognizing a broad power to modify and broaden an injunction, and citing *United States* v. *Swift & Co.*, 286 U. S. 106 (1932), and *Dugas* v. *American Surety Co.*, 300 U. S. 414 (1937). And see *United States* v. *Western Pa. Sand and Gravel Assn.*, 114 F. Supp. 158 (W. D. Pa. 1953), in which the Court held, under 28 U. S. C., §1651(a), that the Government was entitled to an injunction restraining the dissolution of an antitrust defendant which had previously entered into a consent decree. The court found that the defendant's threat to dissolve itself would, if carried out, frustrate the decree previously entered. To avoid such frustration, the court granted the restraining order sought by the Government.

If a "change in circumstances" need be shown in order to justify a modification of the Decree, it is apparent that that test is met by the circumstance that since the entry of the Final Decree USG has threatened and brought infringement suits. At the time of entry of the Final Decree of May 15, 1951 USG had neither threatened nor brought infringement suits. Consequently, as the Government said in its supplemental brief in the *Hughes* case, *supra* (Brief of the United States, p. 27):

> "If changed circumstances must be shown in a case such as this, that requisite has been supplied by [USG's] course of conduct since the entry of the decree."

This is much more clearly true in this case than it was in the *Hughes* case itself.

In any event, there is real question whether, in a case such as this, in which a broadening of the decree is sought, changed circumstances must, in fact, be shown. This Court has never applied that rule to a case in which a modification of the decree is sought in order to effectuate its basic purpose by expanding its scope. Instead, this Court has applied the test announced in *Chrysler, supra,* page 562—"whether the change served to effectuate or to thwart the basic purpose of the original . . . decree."

C. *The District Court had the power to enjoin prosecution of USG's actions in other Federal Courts in order to avoid a multiplicity of actions.*

The Court below invoked "multiplicity of actions" as another ground for jurisdiction. It relied on the bringing in different courts[17] of "the four present suits by USG"

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17 It is of no consequence that in the suit against Newark in the District of New Jersey, and that against Ebsary in the Southern District of New York, issue had not been joined (USG Br. 34). The matters were pending when the petitions were brought.

as well as the claims against Celotex and Kaiser (Conclusion 5, R. 1155). It found that the prevention of a multiplicity of actions is a "long established basis of equity jurisdiction" (R. 987).

A wise judicial administration generally counsels centralization of litigation in one Court. The wisdom of the Court's ruling is clear on the facts of the instant proceeding. If the Court had not enjoined the action in other courts, different judges in different districts might have had before them identical issues all of which would be argued by reference to the record and decree of the District of Columbia Court. Even were one defendant in one of the separate actions to prevail by reliance on the Final Decree, or because of USG's continued patent misuse, principles of *res adjudicata* would not bar USG from bringing infringement suits against other and different licensees in other courts in its attempts to achieve some benefit from its misused patents. The District Court for the District of Columbia was the only forum that had available to it the power to sterilize against a future proliferation of actions. The power to prevent a multiplicity of actions has been sustained by this Court. *E.g., Steelman* v. *All Continent Corp.*, 301 U. S. 278, 285, 286-287, 289-290 (1937).[18]

In the situation at bar, the District Court, having all interested parties before it, was the appropriate court to decide in the light of the record which it had itself made

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18 That the *Steelman* case is not limited to bankruptcy proceedings and applies as well to equity courts generally appears not only from the *Steelman* opinion itself but from the interpretation given it by the Third Circuit in *Crosley Corp.* v. *Hazeltine Corp.*, 122 F. 2d 925, 928-929 (3d Cir., 1941), *cert. denied*, 315 U. S. 813 (1942). See also Chafee, *Bills of Peace with Multiple Parties*, 45 Harv. L. Rev. 1297 (1932).

and of the decree which it had itself framed, the "purge" issues common to USG's suits.

USG acknowledges that avoiding a multiplicity of suits and conflicting judgments of several Courts are traditional grounds for equitable jurisdiction. It does not contest either of them (USG Br. 33). It asserts, however, that the factual basis for action to avoid multiplicity of suits is not present *(id.)*, pointing to the fact that two of its suits, against National and Certain-teed, are in the Iowa Court, and that the Newark and Ebsary suits in other jurisdictions have since been settled and dismissed (USG Br. 33-34). This analysis ignores the facts of record on which the District Court below acted to enjoin a multiplicity of actions. The complaint against National was brought in the United States District Court for the Northern District of Iowa as was the complaint against Certain-teed (R. 614, 646). The complaint against Ebsary was brought in the District Court for the Southern District of New York (R. 622). The complaint against Newark was brought in the District Court for the District of New Jersey (R. 634). The notices of infringement (p. 18, n. 12, *supra*) sent to the Henry J. Kaiser Company were addressed to Oakland, California (R. 655), and might well have resulted in litigation there. The Celotex Corporation, against which claims for infringement for the period prior to the entry of the final decree also have been made (p. 18, n. 12, *supra*), has its principal offices in Chicago, Illinois and it is probable that litigation would have been brought in the District Court there. Obviously, the power of the District Court below to enjoin against a multiplicity of actions cannot retroactively be affected by the circumstances that the Newark and Ebsary suits have been settled after the Court below acted on the facts then before it (USG Br. 33-34). The question, of course, is whether or not the District

Court had a proper basis for decision at the time that decision was made.[19]

In all of these matters the same issues are involved. USG claims to have against Ebsary, Newark, Certain-teed and the others the same rights it asserts against National.

Other federal courts may, we agree, also have power to construe the 1951 Final Decree (USG Br. 34 and note). Neither that consideration nor the cases cited by appellant, however, cast any doubt on the power and discretion exercised by the District Court to grant an injunction against multiplicity of actions.

D. ***National and all other petitioners had standing to petition for orders, modifications or directions for the enforcement, construction or carrying out of the Final Decree of May 15, 1951.***

Appellant argues, "It is clear that only the Government is entitled to seek to enforce an antitrust decree in the manner sought by the corporate appellees." (USG Br. 30). A glance at the terms of Article X of the Final Decree ought be enough to dispose of this contention. Jurisdiction of the cause and of the parties was retained by the District Court "for the purpose of enabling any of the parties * * * to apply to this Court at any time for such orders, modifications" etc. (R. 571; Devel., p. 13).

National and the other petitioners below, the United States, Certain-teed, Ebsary and Newark, were all parties to the decree (1951 Decree, Art. II, R. 564). It was not necessary for the United States to participate in the proceedings in order to give National proper standing to invoke the Court's jurisdiction. Nevertheless, the Government did participate, and did petition the District Court

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19 See pp. 22-23, *supra*, re these settlements.

for an order enjoining prosecution of those claims which were based on the agreement found to be illegal, null and void (R. 739). It pointed out that the finding would be "empty and futile" if it means that the agreements "remain null and void only until a party to the agreements chooses to sue thereon" (Brief of U. S., October 8, 1953, p. 12). The United States invoked the Court's jurisdiction to modify, which it described as "explicitly within the reservation of jurisdiction provisions of Article X" (*Id.*, p. 13 and see p. 13, *supra*). The Government did not take the position in the proceeding below that the District Court's power is limited to enforcement of the decree against the counts based on the nullified agreements (R. 814-816, 877-882, *supra*, pp. 18-19).

The petitioners—all of them, including the Government—activated the District Court's jurisdiction by lodging their petitions with it. The Court had the power to grant all necessary and appropriate relief. Its power could not be circumscribed by the limitations contained in the positions advanced by any of the petitioners. The extent of the exercise of power—once invoked—was for the Court, and not for the parties. Obviously, once the jurisdiction of the Court had been activated, neither the United States nor any of the other parties could restrict the Court's range of judgment in exercising its power to modify the Decree.

The standing of National itself to invoke the jurisdiction of the District Court is not weakened by the circumstance that the modification "inures greatly to [petitioners'] financial benefit" (USG Br. 32). The general rule which governs petitioners' standing (30 C. J. S., Equity §6031, citing particularly, *Louis* v. *Brown Township*, 109 U. S. 162 (1883)) is that:

> "Adverse or conflicting interests between co-defendants may be passed on, and a decree made between

> them grounded on the pleadings and proof between plaintiff and defendants, and founded on and connected with the subject matter in litigation between plaintiff and one or more defendants, although plaintiff has no interest in the controversy between co-defendants."

Since Article X of the decree expressly reserves rights for the parties to the decree to invoke the District Court's jurisdiction, the cases cited by appellant at pp. 30-32 of its Brief are without relevancy. Those are all cases involving strangers to a decree who obviously had no *locus standi.*

Buckeye Coal & Ry. Co. v. *Hocking Valley Ry. Co.,* 269 U. S. 42 (1925) (USG Br. 30) is a case in which coal companies, not parties to the decree, were seeking to intervene in order to modify a decree (269 U. S. at 49). They were mere "informers" (269 U. S. at 48) and had no legal standing. The same infirmity attaches to the other authorities cited by Appellant at page 31 of its Brief, i.e., *United States* v. *Bendix Home Appliances,* 10 F. R. D. 73, 75 (S. D. N. Y. 1949); *United States* v. *General Electric Co.,* 95 F. Supp. 165 (D. N. J. 1950); *United States* v. *Radio Corporation of America,* 3 F. Supp. 23 (D. Del. 1933); *United States* v. *Columbia Gas & Electric Corp.,* 27 F. Supp. 116, 119 (D. Del., 1939) appeal dismissed, 108 F. 2d 614, *cert. denied,* 309 U. S. 687 (1940); *United States* v. *Northern Securities Co.,* 128 Fed. 808, 813 (S. D. Minn. 1904) *aff'd.,* 193 U. S. 197 (1904).

Terminal R. R. Assn. v. *United States,* 266 U. S. 17 (1924), is a close precedent on the question of standing. That was an equity action brought by the Government under the Sherman Act. Three years after entry of a final decree against the defendants, one group of original defendants (the West Side Lines) charged another group of original defendants (the East Side Lines) with violation of the Court's decree, and sought a contempt adjudication.

" • • • the United States did not join in the complaint or participate in the hearing in the District Court • • • The proceedings were instituted by the West Side lines, not to vindicate the authority of the court, but to enforce rights claimed by them under the original decree." 266 U. S. at 27. This Court disposed of the matter on the merits, indicating that the right of antitrust defendants to seek enforcement of the decree, when enforcement is in their interest, was undoubted.[20]

The case at bar is governed by *Missouri-Kansas Pipe Line Co.* v. *United States,* 312 U. S. 502 (1941). That case, like this, arose out of an equity action brought by the Attorney General under the antitrust laws. A consent decree was entered and, thereafter, Mokan, a stockholder of Panhandle which, under the consent decree, had the right to "become a party", sought to exercise that right in order to seek modification of the consent decree which was deemed inadequate to accomplish its original purpose.

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20 The opinion of the District Court, made up of Circuit Judges Sanborn, Carland, and Stone, states that "counsel for respondents filed a motion to dismiss the petition and to quash said order to show cause, upon the ground . . . that . . . the United States has made no complaint that the defendants in the original action or the respondents in the present proceedings had not obeyed the decree of this Court, and therefore it was not competent for petitioners to endeavor to prosecute the suit by way of proceedings for contempt." Transcript of Record before the Supreme Court of the United States, No. 115, October Term 1924, p. 496.

The District Court rejected this contention. (*Ibid.*) One of the appellants' assignment of errors was that the contempt decree of the District Court was erroneous, "In that the said decree permitted the parties instituting the proceedings, out of which said decree grew, to do so *when the United States of America was the only party complainant herein and neither initiated nor joined in said proceedings.*" Record in No. 115, October Term 1924, pp. 520, 531 [emphasis added]. The issue thus raised was discussed in the Brief for Appellants, pp. 40-41, and the Brief for Appellees, pp. 27-31.

It was contended, in opposition to Mokan's participation, that "the Attorney General is the guardian of the public interest in enforcing the antitrust laws." 312 U. S. at 505. But this Court said (312 U. S. at 506, 508):

> "All of these arguments misconceive the basis of the right now asserted. Its foundation is the consent decree. We are not here dealing with a conventional form of intervention, whereby an appeal is made to the court's good sense to allow persons having a common interest with the formal parties to enforce the common interest with their individual emphasis. Plainly enough, the circumstances under which interested outsiders should be allowed to become participants in a litigation is, barring very special circumstances, a matter for the *nisi prius* court. But where the enforcement of a public law also demands distinct safeguarding of private interests by giving them a formal status in the decree, the power to enforce rights thus sanctioned is not left to the public authorities nor put in the keeping of the district court's discretion."
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> "We are not concerned with the substantiality of [Panhandle's] claim. The sole question before us is whether there was standing to make the claim before the district court. We hold there was such standing. . . . Nor can the enforcement of this protection be deemed remotely in conflict with the public duties of the Attorney General, nor to bring in digressive issues, nor to impeach the existing decree. It is a vindication of the decree."

In sum, the petitioners below had standing to make the claim before the District Court. The Court was in no way limited by the positions advanced by any of the petitioners, including the United States. Acting as a court of equity—once its jurisdiction was properly invoked—it had authority to afford a full measure of relief to the parties before it.

II

The District Court properly construed the 1951 Decree to bar Counts I and II of the Iowa action. The 1951 Decree should be construed to bar all the other counts claiming compensation prior to 1951.

A. *Counts I and II of the Iowa Action were properly enjoined because their prosecution violated Article IV of the Decree.*

Counts I and II of the Iowa action expressly pleaded National's liability for royalties in the amount of $1,600,000 on the license agreement declared a nullity by Article IV of the decree (R. 614-617, 786-787, App. A).

These license agreements on which USG sued in its Counts I and II were successfully attacked by the United States of America in an historic eleven-year litigation, in the course of which this Court twice condemned them as the prime means of effectuating unlawful control of an entire industry. Article IV had specifically adjudicated them "illegal, null and void" (R. 567; Devel., p. 5). Unless this litigation and this provision of the decree are deemed to be idle gestures, USG was properly barred from enforcing its unlawful licenses.

It is clear that Article IV was sufficient basis for the District Court's injunction against enforcement of the agreements. The lack of a specific injunction in the Decree of 1951 against enforcement of the agreements might have prevented a contempt citation against USG for its action in suing thereon; it certainly did not stand in the way of a later specific injunctive implementation of that declaration. *Dugas* v. *American Surety Co.*, 300 U. S. 414, 427 (1937); *Local Loan Co.* v. *Hunt*, 292 U. S. 234 (1934), *supra*.

The Final Decree did not simply strike the unlawful portions of the license agreements and leave the provisions for royalties in effect, as USG's Iowa Count II seems to assume (R. 616-617, 786-787, App. A). As we have seen (*supra*, pp. 8-9), Article IV did not follow the proposal of USG merely to cancel the illegal price-fixing provisions of the patent license agreements (R. 183-184, 192, 393); it declared them to be "illegal, null and void" in their entirety.

Moreover, by the time the Final Decree was entered, it had become settled law that unlawful price-fixing provisions in patent license agreements are not severable from the license provision for the payment of royalties. All provisions of the unlawful license agreements fall together. *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 401 (1947); *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402, 407 (1947).

Count III also alleged National's liability for $1,600,000 at the royalty rate fixed by the illegal agreement. It pleaded the original illegal, void agreement of October 17, 1929; but then recited that on or about February 1, 1948, National repudiated the agreement and discontinued payment; that USG acquiesced in this repudiation, that each of the parties treated the agreement as rescinded, but that National then requested permission to use the Roos Patent promising to pay the reasonable value for its use from the time of the repudiation to May 15, 1951 (R. 618-619, App. A). Consequently, it is charged that National became indebted to USG in the sum of $1,600,000. This allegation sets up an agreement, either express, or, implied in fact, for the payment by National of royalties for the use of USG's patent for the period February 1, 1948 to May 15, 1951. The Court below found this to be an *indebitatus assumpsit* count based on a pleaded express contract (Finding 28, R. 1153; Conclusion 14, R. 1157). Appellant, however,

refers to the count as one in *"quantum meruit"* (USG Br. 17-18). No consequence turns on this difference between the Court's finding and the pleader's characterization of its count. If in fact the action is for *"quantum meruit"*, as will be demonstrated later in the discussion of Count IV (pp. 51-52 *infra*), recovery on this theory cannot be had. If, as the District Court found, this count sounds in *indebitatus assumpsit*, it is equally infirm.

Article II of the Final Decree of May 15, 1951 (R. 564-566) included not only the "Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee," and the "Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee) as Licensee" but also "any supplement or amendment to any of said license agreements" (R. 566). If the agreement alleged in Count III of USG's Iowa complaint is a supplement or amendment to the 1929 agreements, it, too, was adjudicated "illegal, null and void" by Article IV of the Final Decree.

Even if the agreement pleaded in Count III of the Iowa complaint be not held to be specifically a supplement or amendment to the 1929 patent license agreement, it is, we contend, nonetheless reached by the ban of Article IV of the Final Decree of May 15, 1951. This result follows because the Government, the defendants, and the original District Court all intended that the adjudication of illegality in Article IV should apply to all patent license agreements between USG and others in existence at the date of the Final Decree.

That this was the intention expressed by the decree is made clear through the following excerpts from the argument made during the course of proceedings leading to the entry of the Decree of November 7, 1949:

"Mr. Knuff (counsel for the United States): • • • and that will bring me then to discuss the question of the cancellations of licenses.

"I do not think the court is going to have too much trouble in disposing of this section of the decree, because, if I understand USG's position correctly, they do not object to the cancellation of the existing licenses. All that they object to are the words that we use to express that idea.

"Well, the reason we use the broad language that we did, was: We didn't know what licenses might have been entered into subsequent to the last hearing on this case.

"If USG will certify to this court that they have not any additional licenses, other than the ones that they refer to in their objection; and, if each licensee, in turn, will certify that they have not any other licenses, other than what is set forth in the objection [sic], we have no objection at all to having the provisions of this decree specify the licenses that USG mentioned in their memorandum" (R. 278).

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"Mr. Connelly (counsel for USG): Now, with reference to that list of patent license agreements, counsel for plaintiff has stated here that it is entirely agreeable to him that that list of licensees be incorporated provided that it can be certified that those are the only agreements in effect between the parties.

"In attempting to deal with that situation specifically, we think that to avoid any possibility that there may be some amendments or supplements to those agreements which thus far have not come to our attention in connection with it, at the end of Article II of the form of decree attached to the defendants' memorandum these words might be added: 'And any supplement'—that is at page 84 of our memorandum.

"Chief Judge Stephens: Where would that go?

"Mr. Connelly: At the very end of Article II.

"Chief Judge Stephens: Article II, at the top of page 84?

"Mr. Connelly: Yes, sir, at the top of page 84, just after the list of licensees. [sic]

"Chief Judge Stephens: I see.

"Mr. Connelly: 'And any supplement or amendment to any of said patent license agreements.' With that addition, the list is obviously all-inclusive, and the certification requested may properly be made" (R. 307-308).

The list referred to by Mr. Connelly contains no agreement made later than 1939 (R. 190-191). Count III pleads an agreement made with National in 1948. Nevertheless, counsel for USG met the Government's objection that there might be outstanding license agreements not specified in Article II of the Decree, by certifying to the Court that "the only agreements in effect between the parties" were those specifically listed and supplements or amendments thereto.

USG could not truthfully certify to the District Court that there were no agreements between it and National entered into between 1948 and 1951 and later, conscientiously, bring suit to enforce such a claimed agreement in the Iowa Court. The only way to resolve this conflict, and avoid an inference of fraud, is to assume that the 1948 agreement, if it existed, was a supplement and amendment to the 1929 license agreement, and if it were such a supplement and amendment the adjudication of illegality in Article IV of the Final Decree applied to it with as much force as it did to the original 1929 agreement.

B. ***The fair intendment of the Final Decree of May 15, 1951 barred USG from prosecuting all counts of its Iowa Action.***

In 1943 the United States, with the Courts' leave (1947 R. 350), amended its complaint to include a prayer enjoining the defendants from prosecuting infringement suits "or otherwise" to collect royalties on its misused patents

(1947 R. 347). The prayer was never withdrawn, but when the time came for preparation of the decree, there was no immediate, apparent need for this specific injunction. Prior to 1951, no infringement claims at any time had been made or even threatened (R. 1013). The only claims against which specific provisions seemed to be required were those made by USG under the agreements which the 1949 and 1951 Decrees adjudicated illegal, null and void. As seen (pp. 8-9, *supra*), proponents of Article IV of the decree and USG in opposition, recognized that the declaration applied not only to enforcement of the license agreements themselves, but to all enforcement of the underlying patents for the pre-decree period. The broad question of whether USG was entitled to compensation for use of its patents was tendered to the Court which framed the Decree and was resolved by the Court below in Article IV.

Appellant relies heavily on the statement of counsel for Celotex, one of the defendants, to the point that it was not the purpose of Article IV to avoid liability for use of the USG patents (USG Br. 67, 68 and note). This statement supports rather than contradicts the contention that the matter of compensation for the use of USG's patents was put at issue before the District Court at the time the Final Decree was entered. Mr. Dallstream discussed that issue, speaking for his client, and his alone.[21] He spoke of

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21 USG is inaccurate in stating that "Mr. Dallstream, the Celotex attorney, because of his familiarity with the *Masonite* case, was to present the defendant licensees' views as to the suggested form of decree" (USG Br. 68, note). The defendant licensees, other than USG, had merely allocated the time for argument among themselves (R. 344-345), they had no plan of presentation of position to the Court. Mr. Miller, counsel for Certain-teed, deferred to Mr. Dallstream as to "the exact changes we desire to make in both decrees [USG's and the Government's]," but indicated no

"my position . . . so far as my client is concerned" (R. 373). And his client, he said, was willing to let the royalty rate "apply back to the time when we ceased paying royalties" (R. 373). However, the other defendants at the same time clearly articulated their different views, as did the United States (R. 385, 406-407, 426-428, 432). USG itself repeatedly referred to its conviction that the proposal for adoption of Article IV was being made in an attempt to relieve the defendants from accounting for anything done either before or after the Supreme Court's decision of March 8, 1948 (R. 437, see also R. 439, 440). It told the District Court:

> "The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents" (R. 437).

It was in knowing resolution of the difference between the proposal to void the agreements in their entirety and USG's more limited proposal to strike only the pricing provisions that the District Court acted in adopting Article IV.

We contend that the District Court in so doing manifested its purpose to suspend USG's right to enforce in any way those patents which it had misused. That purpose would have been frustrated if USG had been left free under some alternative theory to recover compensation for the

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agreement with Mr. Dallstream as to the effect of the proposed changes (R. 364-365).

When Mr. Dallstream himself spoke, he said (R. 369): "Now, in this case *we have differences of opinion.* These various agents, some of them have a few plants, some of them have many, some of them are using this patented process and not some of the others. There is not complete uniformity in the extent of use. There are some differences as between the agents themselves and with USG. • • • "

use of its patents for the same period as to which recovery under the contract was prohibited.[22]

III

The lower Court acted within its discretion in modifying the 1951 Decree to bar USG's Counts IV *(quantum meruit)* and V (infringement).

Assuming, arguendo, that the Final Decree, fairly construed, does not bar USG's *quantum meruit* and infringement claims for the period preceding the 1951 Decree, the District Court properly acted within its discretion in modifying the Decree to bar these claims.

The so-called *quantum meruit* claim may be given short shrift. It is a pure invention of counsel. A *quantum meruit* claim does not lie for use of a patent.[23]

The only substantial question here is whether the District Court acted properly in modifying its 1951 Decree to enjoin USG's infringement claims for the pre-decree period.

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22 The District Court did not adopt our contention that Article IV barred all USG's claims; its view was that the Decree in its present 1951 form, barred only Counts I and II and "neither allowed nor forbade" the other counts (Conclusion 7, R. 1156).

23 It is not possible to found a *quantum meruit* claim on patent infringement, for the reason that the infringement remedy is wholly statutory and has no common law basis. The patent owner, under the statute, may sue at law for damages for infringement, or seek an injunction, accounting and damages in equity. 35 U. S. C. §§281, 283, 284.

Infringement of a patent is a tort. *Carbice Corp.* v. *American Patents Corp.*, 283 U. S. 27, 33 (1931); *Stein* v. *Goddard*, 22 Fed. Cas. No. 13,353 (C. C. Cal. 1856); 69 C. J. S. p. 890. Accordingly, the law will not resort to the fiction of a contract on the part of the infringer to sustain a quasi-contractual action. *In re Paramount Publix Corp.*, 8 F. Supp. 644 (S. D. N. Y. 1934); see 1 Williston on Contracts, §3.

USG contends that the 1954 amendment is improper because it "does not effectuate the purposes of the decree,[24] but improperly injects into the decree a subject matter of a purely private nature" (USG Br. 25). USG asserts that payment for the use of patents *pendente lite* has no connection with any of the basic purposes of the decree (USG Br. 70). The authority cited by USG for this proposition is *Hartford-Empire Co.* v. *United States*, 323 U. S. 386 (1945); 324 U. S. 570 (1945).

It has been held in several cases that there is no quasi-contractual action for patent infringement. *In re Paramount Publix Corp., supra; In re Boston & Fairhaven Iron Works*, 23 Fed. 880 (C. C. D. Mass. 1885); *Schillinger* v. *United States*, 155 U. S. 163 (1894); *United States* v. *Palmer*, 128 U. S. 262 (1888); *cf. DeWitt* v. *Elmira Nobles Mfg. Co.*, 66 N. Y. 459 (1876); *Cohan* v. *Robbins Music Corp.*, 244 App. Div. 697 (1st Dept. 1935). We have not been able to find any cases holding *contra*.

Moreover, it is settled (*Bruce's Juices* v. *American Can Co.*, 330 U. S. 743, 748, note 1 (1947)) that:

> ". . . no recovery on quantum meruit could be had. The general rule is that a transaction wholly illegal will not support such a suit. See *Williston, Contracts* §1786(a); Restatement of Contracts, §598, Comment c."

An action for *quantum meruit* is quasi-contractual imposed by law without regard to the intentions of the defendant. Such obligations do not spring into being unless they are of a kind which could have been enforced under common law procedure by a contractual action (1 Williston on Contracts §3). Since the direct contractual obligations were illegal, there is no foundation for *quantum meruit*.

24 This Court stated the purpose of an antitrust decree in its second opinion in this action (340 U. S. 76, 88):

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of

USG is in error. It is too late to argue now in a patent misuse case that such a remedy can have no relation to the basic purpose of an antitrust decree, and that it "improperly injects" into a decree "a subject matter of a purely private nature" (USG Br. 25). This Court has already sanctioned this remedy in antitrust suits. *Hartford-Empire Co.* v. *United States, supra* 323 U. S. at 418-9 (1945); *National Lead Co.* v. *United States,* 332 U. S. 319 (1947), *aff'g* 63 F. Supp. 513, 534 (S. D. N. Y. 1945). Lower courts thereafter have granted the same remedy of forbidding infringement suits until entry of a final, effective decree, *e.g., United States* v. *Vehicular Parking, Ltd.,* 56 F. Supp. 297 (D. Del. 1944), 61 F. Supp. 656 (D. Del. 1945). Indeed this relief, in some form, is most frequently included in consent decrees settling patent misuse cases.[25]

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the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. Acts entirely proper when viewed alone may be prohibited. The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct."

The basic purpose of the 1951 Decree is not limited merely to the prevention of future violations of the Sherman Act as USG would have this Court believe (USG Br. 69). Its primary purpose rather is to dissipate the effects of the illegal restraints imposed upon the industry by USG, and, also to prevent future recurrences.

25 During the period from 1946 to December 1955, it is found in 42 of 64 such cases. CCH Trade cases (1946-1947) Par. 57,492, p. 58,295; Par. 57,444, p. 58,058; Par. 57,603, p. 58,656; Par. 57,579, p. 58,587; Par. 57,645, p. 58,783; Par. 57,458, p. 58,122; Par. 57,542, p. 58,452; Par. 57,456, p. 58,115; Par. 57,621, p. 58,710; Par. 57,433, p. 58,036; CCH Trade Cases (1948-1949) Par. 62,230, p. 62,341; Par. 62,284, p. 62,649; Par. 62,349, p. 62,905; Par. 62,223, p. 62,272; Par. 62,255, p. 62,519; Par. 62,338, p. 62,879; Par. 62,268, p. 62,606; Par. 62,233, pp. 62,358, 62,363; Par. 62,518, p. 63,534; Par. 62,323, p. 62,809; Par. 62,442, p. 63,270; Par. 62,334, p. 62,860; Par. 62,236, p. 62,375; Par. 62,330, p. 62,844; Par. 62,356, p. 62,933; CCH Trade

The question is whether the record in this case justified the imposition by the District Court of this now routine remedy. USG, by failing in its Brief to treat this question, never really gets to the heart of the issue of modification. It certainly is not enough to say, as USG does, that such relief "injects into the decree a subject matter of a purely private nature" (USG Br. 25). The same argument could have been made in all other cases in which such relief has been granted. Nor is it enough to contend, as USG does, that since the Government is not now asking for this relief, such relief would not carry out the basic purposes of the decree (USG Br. 70-71). It is the Court, and not the Government, which must determine the question of appropriate relief.

National contends that the District Court was justified, on the basis of (A) the similarities of this case to *Hartford* and *National Lead;* and (B) several specific facts in this record, to invoke the remedy of injunction against infringement suits for the pre-1951 decree period.

A. *The Hartford and National Lead cases support the remedy of pre-decree injunction against infringement suits.*

In both *Hartford* and the instant case (*Gypsum*):

(1) The unlawful combination controlled an entire industry. In *Gypsum* (east of the Rockies) the control was 100% (333 U. S. 364, 371); in *Hartford,* 94% (323 U. S. 386, 400).

Cases (1950-1951) Par. 62,533, p. 63,575; Par. 62,586, p. 63,727; Par. 62,867, p. 64,570; Par. 62,914, p. 64,783; CCH Trade Cases (1952) Par. 67,248, p. 67,385; Par. 67,233, p. 67,343; Par. 67,403, p. 68,060; CCH Trade Cases (1952-1953) Par. 67,501, p. 68,465; Par. 67,583, p. 68,769; Par. 67,595, p. 68,859; CCH Trade Cases (1954) Par. 67,714, p. 69,294; Par. 67,733, p. 69,361; Par. 67,771, p. 69,468; Par. 67,828, p. 69,681; Par. 67,829, p. 69,691; CCH Trade Cases (1955) Par. 68,023, p. 70,323; Par. 68,093, p. 70,520.

(2) Control was effectuated through patent pooling and licensing. In *Hartford* the patents were pooled primarily in the Hartford-Empire Company (323 U. S. 386, 400); in *Gypsum,* the patents were pooled in USG.[26]

(3) Control covered not only patented but unpatented products. In *Hartford* the patents which covered machinery were used to extend control over unpatented glassware (323 U. S. 386, 400). In *Gypsum* the patents which covered wallboard were used to extend control over unpatented board and plaster (333 U. S. 364, 397, 399).

(4) The patents were used to fix the prices of both patented and unpatented products. In *Hartford* the patents were used to fix the price at which patented machinery was leased and licensed to glassware manufacturers, and there was some slight evidence of price-fixing of unpatented glassware (323 U. S. 386, 400). In *Gypsum* price-fixing was extended to all gypsum products patented and unpatented (333 U. S. 364, 399).

In both cases this Court ordered compulsory licensing at reasonable royalties of both existing and future patents.

In *Hartford,* however, Mr. Justice Roberts speaking for the Court also ordered as to the Hartford-Empire Company and all other defendants

> "• • • if at the time of entry of the decree there are any alleged infringers who are willing to take such

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26 USG acquired admittedly basic patents from Universal, which were prime instruments in USG's price regulation (333 U. S. 364, 380-381). In *Hartford,* none of the acquired patents was basic; Hartford contended without contradiction from the Government that all acquired patents were "non-competing" and "supplementary" (*Hartford-Empire* v. *United States,* Supreme Court, Oct. Term 1943, No. 7, Brief for Hartford-Empire, pp. 102-110).

licenses they should be released, and the *patent owner deprived of all damages and profits which it might have claimed for past infringement*" (323 U. S. at p. 419). (Emphasis supplied.)

In its Brief (pp. 21-22, 40, 47, 60, 66-67, 70), USG has intermixed this controlling aspect of *Hartford-Empire* with a special problem in that case related to the disposition of earmarked royalties paid by Hartford's licensees into the hands of a receiver during the period between the initial and final decrees issued by the lower Court.

The lower Court in *Hartford* had appointed a receiver at the time of entry of its initial decree, in order, *inter alia*, "to prevent any further abuse of the patent privileges of Hartford" (46 F. Supp. 541, 620 (N. D. Ohio 1942)). Hartford's licensees had paid royalties to Hartford's receiver, for the use of Hartford's machines and patents, during the period between the initial and final decrees. This Court in its first opinion said the royalties should be paid over to Hartford, unless Hartford since the initial decree violated (1) the anti-trust laws or (2) the District Court's decree as modified by the Supreme Court (323 U. S. at p. 411). In its second opinion, however, this Court said that Hartford's licensees could repudiate their agreements with Hartford, and litigate their rights to the monies paid to the receiver (324 U. S. at p. 572). Thereafter, the licensees and Hartford settled their dispute as to these monies.

It appears from the two opinions of this Court (323 U. S. 386, 324 U. S. 570) that:

(1) Hartford was to be enjoined from infringement suits against persons who used its patents prior to the entry of the final decree.[27]

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27 Thus, for example, Hartford was enjoined from seeking damages or profits from F. E. Reed and Jeannette Glass Company

(2) Persons who chose to return Hartford's machinery and to use Hartford's patents were also insulated from any infringement suit prior to the final decree.[28]

(3) Persons who continued to use Hartford-Empire's machinery and patents and who paid the receiver for such use were given the right to litigate any royalty claim of Hartford for use of its patents for the period prior to the entry of the final decree.

It appears from the foregoing, therefore, that no person using Hartford's patents for the pre-decree period was obligated to pay for their use by this Court. There is, therefore, nothing in *Hartford-Empire* which supports USG's claim that it is entitled to compensation for the use of its patents for the period preceding the final decree. The essential point is that under *Hartford-Empire* "alleged infringers"—and National and Certain-teed are certainly alleged infringers—who took a license upon entry of the Final Decree—which National and Certain-teed did—"should be released and the patent owner (USG) deprived of all damages and profits which it might have claimed for past infringement"[29] (323 U. S. at p. 419).

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against whom infringement suits were pending at the time of the District Court's initial findings (Findings 279, 280, Transcript of Record, Supreme Court of the United States, October Term, Nos. 7-11, *Hartford-Empire et al.* v. *U. S.*, Vol. X, page 7338).

28 Although it does not appear that there were any persons in this class (Report of James A. Shanley, Receiver of Hartford-Empire Company, On The Operation and Results of the Receivership, Aug. 28, 1944) it is clear that such persons could only be "alleged infringers" and Hartford could not sue therefor.

29 Conceivably this Court's ruling as to earmarked royalties might lend some color of validity to a claim by National from USG for royalties paid to it under the illegal agreements. National, however, is not seeking such royalties, although it has paid

The ultimate disposition of the earmarked royalties in the Final Judgment of the District Court (Final Judgment as Amended May 23, 1947) is of no moment (see USG Br. 40), since it was a result of a negotiated settlement. The law was laid down by this Court as above stated.

This Court itself has pointed out the similarities of the instant case to *National Lead,* a case, like *Hartford* and *Gypsum,* of industry-wide monopolization and restraint through patents, in passing on the very question of appropriate patent relief. In ordering compulsory licensing in the instant case on the basis of *National Lead* this Court noted that the violations of law in National Lead "were as offensive to the prohibitions of the Sherman Act as those proven in the present case," 340 U. S. at 93. In *National Lead,* as stated *supra,* an injunction against infringement suits was deemed an appropriate remedy. *National Lead* did not have the peculiar problem in *Hartford* of payments to a receiver. The injunction in National Lead, therefore, forbade each of the defendants from prosecuting infringement suits against all persons (including, of course, co-conspirators) for the pre-decree period.

There was ample discretion in the District Court, on the basis of *Hartford* and *National Lead,* to enjoin USG's infringement claims at the time of entry of the 1951 Decree if there had been any then pending or even threatened. There can be little doubt that it would have so enjoined

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to USG many millions of dollars in royalty fees under its illegal license agreement. In its Iowa action USG charges National with owing it $1,600,000 based on a royalty of 1% for $160,000,000 of gypsum board allegedly made and sold by National under the Roos patent. During most of the period of National's license, 1929-1948, the royalty rates were higher: 3 1/2% from 1929 to 1937; 2% from 1937 to 1941; 1% thereafter (1947 R. 4360), and they were assessed against unpatented as well as patented gypsum board.

them. The result should not be different because USG waited for years after entry of the 1951 Decree to institute its infringement claims. Unless this issue is treated on the same basis as if it had arisen by an infringement suit started by USG prior to entry of the 1951 Decree, USG obtains a benefit by holding back its infringement claims almost to the end of the limitations period.

In *Armstrong* v. *De Forest Radio Telephone & Telegraph Co.*, 10 F. 2d 727, 728 (2d Cir. 1926), *cert. denied*, 270 U. S. 663 (1926), the Court of Appeals for the Second Circuit said:

> "It is not true that the object of a supplemental injunction is to *amplify* the original one; the object is not to amplify, but to *specify*, and apply the original injunction to actions and objects non-existent when the case was decided. *The inquiry is whether acts and things that have come into existence since* [*the*] *decree would have been enjoined by that decree, had they then existed*" (emphasis in last sentence added).

Affirmance by this Court of the injunction against USG's prosecution of its infringement suits will not only apply the principles and precedents set forth above, but also serve to promote good public policy. In cases where patents have been misused, patentees should be sterilized from the usual rewards for their inventions. This would (1) cause licensees more readily to break away from the licensor who has enmeshed them in an antitrust conspiracy, and (2) to discourage in advance licensors from using their patents as tools of commercial domination.

B. *Other facts support the District Court's discretion.*

In addition to the basic similarity of this case to *Hartford* and *National Lead*, many other facts in this case sup-

port the exercise of the District Court's discretion in ordering USG to discontinue its pre-decree infringement suits.

First, as stated, *supra* p. 6, patent infringement suits were the prime means used by USG to bring about the patent licenses under which the entire industry was monopolized and regimented, and which USG is still seeking to enforce.

Second, the Roos Patent on which the *National* and *Certain-teed* suits are based, was not made available to any alleged infringer on a reasonable royalty basis, and without restrictions as to price-and-quantity-reporting to USG, until entry of the 1951 Decree. (See pp. 14-15, *supra.*)

Third, as the District Court pointed out (Finding 6, 7, R. 1145) the "practical situation" was that the licensees necessarily had constructed their plants on the basis of using USG's patents, and the Supreme Court's first opinion (333 U. S. 364) had placed them in a "perilous" position. It is certainly not an unwarranted exercise of discretion to "protect" the licensees until such time as they can negotiate an unrestricted license with a dominant licensor under the aegis of a Decree (see pp. 6, 52, n. 24, *supra*).

Fourth, USG, by Counts I and II of its suits in Iowa and elsewhere, at the very least, flouted Article IV of the Decree (see pp. 44-45, *supra*). If the issue as to modification was in doubt in the mind of the District Court, it could properly conclude that modification was warranted to insure future respect by USG of the Court's decree.

It is submitted, therefore, that the three-judge District Court's modification of its decree was an appropriate exercise of its power.

C. *The District Court's exercise of discretion should not be disturbed on appeal.*

A long line of cases in this Court indicates a judicial reluctance to disturb a District Court's exercise of its broad power to shape its decree, and particularly that of a statutory three-judge Court.

In *United States* v. *Crescent Amusement Co.*, 323 U. S. 173 (1944) Mr. Justice Douglas said at page 185:

> "where the findings of violations are sustained, we will not direct a recasting of the decree except on a showing of abuse of discretion."

In *Associated Press* v. *United States*, 326 U. S. 1 (1945), Mr. Justice Black, writing for the Court, at page 22, said:

> "The fashioning of a decree in an antitrust case in such way as to prevent future violations and eradicate existing evils, is a matter which rests largely in the discretion of the court."

In *United States* v. *National Lead Co.*, 332 U. S. 319 (1947), Mr. Justice Burton said at pages 334-335:

> "In our opinion, the provisions of this decree, to a large extent, are matters lying within the discretion of the District Court as a court of equity whose duty it was to make the remedy as effective as possible. • • • We believe that the District Court has not exceeded its discretion in the provisions of this decree. • • • "

In *International Salt Co.* v. *United States*, 332 U. S. 392 (1947), Mr. Justice Jackson said at pages 400-401:

> "The framing of decrees should take place in the District rather than in Appellate Courts. They are invested with large discretion to model their judgments to fit the exigencies of the particular case."

When the instant case was before this Court in 1950, Justice Reed said:

> "The determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court. Its opportunity to know the record and to appraise the need for prohibitions or affirmative actions normally exceeds that of any reviewing court. This has been repeatedly recognized by us." (340 U. S. at p. 89.)

Although Justice Reed added "Notwithstanding our adherence to trial court responsibility in the molding of a decree as the wisest practice and the most productive of good results, we have never treated that power as one of discretion, subject only to reversal for gross abuse" (*id.*), the most recent pronouncement of this Court on the scope of review of antitrust decrees, as contained in *Besser Mfg. Co.* v. *United States,* 343 U. S. 444, 449 (1952), is as follows:

> "In framing relief in antitrust cases, a range of discretion rests with the trial judge. *United States* v. *National Lead Co., supra,* at 338; *International Salt Co.* v. *United States, supra,* at 400-401, 405; *United States* v. *Crescent Amusement Co.,* 323 U. S. 173, 185. We can see no abuse of discretion here."

Litigation like everything else must have an end, and this case has already been before the Court three times. It is submitted, therefore, that the District Court's modification of its decree ought not to be disturbed on review.

IV

The District Court also properly enjoined USG from enforcing its patent for the period prior to the 1951 Decree because of the unpurged misuse.

In Point III we have seen that the District Court properly exercised its amendment powers to enjoin USG's *quantum meruit* and infringement claims.

In this Point IV we shall demonstrate that the District Court also properly enjoined these claims (and all others as well) on the separate ground that USG as a matter of law could not show that the misuse of its patent, as appears from the record in this case to the time of the 1951 Decree, was purged prior to the entry of that Decree.[30]

The District Court so acted because it took jurisdiction to determine the questions of misuse and purge, which had been, or, would be, raised in each of the district courts in which USG had filed its suits (Conclusion 5, R. 1155). We have shown, pp. 36-39, *supra*, that the assumption of jurisdiction on the basis of this multiplicity of actions was warranted.

The District Court, then, sitting as each of the district courts might otherwise have done in each of the jurisdictions in which USG had brought its suits, upon an examination of the record in this case, found a misuse which could not, as a matter of law, have been purged until the 1951 Decree.

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30 Even if this Court should find no basis for the District Court's modification in Point III, it is still possible to support the District Court's ruling *in toto* as to National and Certain-teed if our contention in Point IV is correct. Similarly, this Court may conceivably find that our contention in Point IV is unsupportable, but that the District Court's ruling is justified by our contention in Point III.

The District Court's ruling was correct.

Appellant in its Brief treats this Court's rulings on "misuse" as if they were based solely on USG's contumacious attempt to enforce its license agreements in the 1953 suits (USG Br. 21, 37, 44, 46, 47). This is not true. We have shown *supra* pp. 21-22, that USG's fresh misuse in 1953 was a separate ground for the Court's ruling that all USG claims must be dismissed against all petitioners. The fresh misuse ruling is treated in Point V *infra*. In this Point IV we discuss the ruling that USG's misuse, as shown by the evidence in this case and subsequent proceedings until the 1951 decree, could not as a matter of law, have been purged prior to that decree.

Preliminarily, we point out that a patent grant—unlike other forms of property—"is a privilege which is conditioned by a public purpose." *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 666 (1944). "The grant of a patent is the grant of a special privilege 'to promote the Progress of Science and useful Arts.' Const., Art. I, Sec. 8 * * * It is the public interest which is dominant in the patent system." *Id.*, at p. 665. See *Frank Adam Electrical Co.* v. *Westinghouse Elec. & Mfg. Co.*, 146 F. 2d 165, 167 (8th Cir. 1945).

Since the patent is a grant of a special privilege to promote a public policy, "misuse of the patent, or a part of it, by the patentee in such manner as to mislead the public or operate to its detriment, deprives the claim of the benefit of the patent laws." *Altoona Publix Theatres, Inc.* v. *American Tri-Ergon Corp.*, 294 U. S. 477, 493 (1935).

Or, as stated more recently by the Supreme Court in *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 494 (1942):

> "The patentee, like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy."

The only property in a patent grant is the power to exclude others from practising the invention covered by the patent. That property—in essence a monopoly—is given to a patentee as a privilege, subject to certain duties and responsibilities. It is now clear that "misuse" of a patent (e.g. by using it to violate the antitrust laws) is such a violation of the privilege that it renders the patent unenforceable and valueless, at least so long as the misuse continues. Every patent grant in effect carries with it an implied notice to the patentee that the grant contained therein will be recognized and enforced by the courts only so long as the patent is not misused.

Beginning with *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502 (1917), the Supreme Court has developed the rule—which is now well established—that any misuse of a patent in violation of the public policy embodied in the antitrust laws (or the patent laws) renders the patent unenforceable until the consequences of the misuse are fully dissipated.

". . . so long as the patent owner is using his patent in violation of the antitrust laws, he cannot restrain infringement of it by others." *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 415 (1947).

A. *The incontrovertible facts in this Court's second decision (340 U. S. 76) show sweeping misuse by USG.*

In the Court below there was a sharp issue between USG on the one hand and National and the other appellees on the other, with respect to what this Court in its second

decision had concluded was the extent of the misuse by USG of its patents.

The starting point of USG's contention on this issue in the Court below is the statement in this Court's second opinion "accepting as true the underlying facts in defendants' proof by proffer" (340 U. S. 88). Since the defendants' proffers "set forth facts substantially as found" in the lower Court's Findings of Fact entered on August 5, 1946 (USG District Court Brief, Sept. 8, 1953, p. 9), USG contended that these findings—although reversed in part by this Court's first opinion in 333 U. S. 364—provide the factual premise of the 1951 Decree.

Building upon this factual premise, USG's position in the District Court was that "each individual license agreement in this case constituted a valid and binding contract" (USG D. C. Br. 86); that there was no "inherent illegality" in the contracts sued on in its suits against the appellees or the "operations thereunder" (USG D. C. Br. 88); that the only illegality consisted of a "collateral conspiracy" arising from "concerted action" (USG D. C. Br. 88) by the defendants in entering into lawful individual contracts; that, therefore, there was no patent misuse here at all within the meaning of the *Morton Salt* case (*infra* p. 70) (USG D. C. Br. 116).

National's position in the District Court, and here, is that the factual premise of the 1951 Decree is not the District Court's Findings of August 5, 1946 which were reversed by this Court in 333 U. S. 364. National's position is that the controlling facts are those which this Court said in its second decision (340 U. S. 76) should govern the framing of the Final (1951) Decree and which it also said were unimpaired by defendants' proffers. These facts are:

1. The defendants "acted in concert to restrain commerce in an entire industry under patent licenses in order

to organize the industry and stabilize prices" (340 U. S. 76, 84, quoting 333 U. S. 364 at p. 401).

2. The price of gypsum board was fixed; production of open-edge gypsum board was restrained (340 U. S. 76, 86, 90).

3. Prices were fixed not only on patented gypsum board "but also in the sale of plaster and miscellaneous gypsum products sold in conjunction with gypsum board" (340 U. S. 76, 90-91).

4. Jobbers were eliminated (340 U. S. 76, 91; see 333 U. S. 364 at p. 397-398).

5. Trade practices were standardized (e.g., licensees had to sell non-standard wallboard at the same price as standard, and could not offer, because of a delivered pricing system, uniform sizes, etc., more favorable terms to one customer than to another) (340 U. S. 76, 91-92); see 333 at 3

Thus, it is National's position that this Court found broad patent misuse in this case on the basis of the above incontrovertible facts which activated this Court to command the expanded relief embodied in the 1951 Decree.

USG's Brief in this Court fails to state whether USG still claims, as it did in the Court below, that the factual premise of the 1951 Decree is the District Court's findings of August 5, 1946, and that this case therefore involves no misuse within the meaning of the *Morton Salt* case.[31]

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31 In the event USG should hereafter take the same untenable position on this question which it did in the Court below, it needs no extended argument to show that USG's view is erroneous. If USG were correct, USG would have won, not lost, at each of the critical phases of the case leading to this Court's second decision: (1) on the Government's motion for summary judgment; (2) on the issue of whether each license agreement should be adjudicated illegal, null and void, when the District Court framed its decree

Any one of the five incontrovertible facts set forth *supra* pp. 66-67, which impelled this Court to broaden the 1949 decree, would constitute serious misuse; together they support our contention that this is one of the broadest of all patent misuse cases:

(1) *The use of patents as a price-fixing device.* The *Morton Salt* rule has often been applied to cases such as *Gypsum* in which patent license agreements contain illegal price-fixing provisions, and such misuse has rendered the patents unenforceable while it continued unpurged. *Westinghouse Elec. Corp.* v. *Bulldog Elec. Prods. Co.*, 179 F. 2d 139 (4th Cir., 1950); *Campbell* v. *Mueller*, 159 F. 2d 803 (6th Cir., 1947); *Newburgh Moire Co.* v. *Superior Moire Co.*, 105 F. Supp. 372 (D. N. J. 1952).

(2) *Use of patents to suppress the competition of unpatented products.* We have noted (see pp. 6, 67, *supra*) that this Court found violation of the antitrust laws in USG's attempt to suppress the competition of unpatented products. At least two lower Court authorities have directly applied *Morton Salt* to similar restraints of trade, *National Lockwasher Co.* v. *George K. Garrett Co.*, 137 F. 2d 255, 256 (3d Cir., 1943); *McCullough* v. *Kammerer Corporation*, 166 F. 2d 759 (9th Cir., 1948), *cert. denied* 335 U. S. 813 (1948). See also, *Park-In Theatres* v. *Paramount-Richards Theatres, Inc.*, 81 F. Supp. 466 (D. Del. 1948); *Chiplets, Inc.* v. *June Dairy Products Co.*, 89 F. Supp. 814 (D. N. J. 1950). Cf. *Pope Mfg. Co.* v. *Gormully*, 144 U. S. 224 (1892).

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in 1949; (3) on USG's appeal to the District Court from the District Court's motion for summary judgment; and, of course (4) on the enlargement of that decree by this Court. The simple fact is that although this Court accepted the underlying facts of USG's proffer, it did not construe the facts in the proffer to be in conflict with the five undisputed facts of misuse set forth, *supra*.

(3) *Use of patents to boycott jobbers.* There is at least one lower Court case in which the *Morton Salt* rule has been applied in a situation where patents were used to favor one class of enterprisers as against another. Cf. *Urquhart* v. *United States,* 109 F. Supp. 409 (Ct. Cls. 1953); *National Foam System, Inc.* v. *Urquhart,* 202 F. 2d 659 (3d Cir., 1953).

B. *The "Morton Salt Doctrine" bars recovery on misused patents until misuse has been terminated and its effects have been dissipated.*

Since USG was found by this Court to have misused its patents under the antitrust laws, it could not recover for the use of its patents until there had been an effective purge. Purge could not have been found in the case of USG unless there had been a dissipation of at least each of the above five restraints prior to the entry of the Final Decree.

We urge, as the Court below found, (a) that USG did not purge itself of its patent misuse prior to the Final Decree of May 15, 1951, and (b) that USG could not, on the facts of this case, have purged itself at least until the Final Decree of May 15, 1951 was entered.

The burden of proof of purge fell squarely and unequivocally on USG. This doctrine was clearly established by this Court in *B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495 (1942) at p. 498, where it was said:

> "... petitioner suggests that it is entitled to relief because it is now willing to give unconditional licenses to manufacturers on a royalty basis, which it offers to do. It will be appropriate to consider petitioner's right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissipated."

In *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 493 (1942), this Court said:

> "Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated."

The burden of proof doctrine has been put into action by the lower Courts in at least two cases. *Park-In Theatres Inc.* v. *Paramount-Richards Theatres Inc.*, 81 F. Supp. 466, 470 (D. Del. 1948); *United States* v. *Vehicular Parking, Ltd.*, 56 F. Supp. 297 (D. Del. 1944), and 61 F. Supp. 656 (D. Del. 1945).

Misuse and purge are, of course, antipodes. Purge takes place only when misuse ends. Like fire and kindle one destroys the other. USG was found guilty of a broad conspiracy in restraint of trade in which it used its patents as a means for the control of an entire industry (see pp. 6, 11-12, *supra*). USG continued to enforce its illegal patent license agreements which exacted many millions from National (see p. 57, n. 29, *supra*) through the acceptance of tainted royalty payments until the payment owing on March 20, 1948 (R. 607). Each payment was *per se* unlawful because each was made under a license agreement requiring payments of royalties on both unpatented and patented gypsum products. Payment was withheld by USG's licensees because of the decision of this Court on March 8, 1948, which condemned as illegal USG licensing practices and left the licensees no other choice (p. 7, note 7, *supra*). At least until March 20, 1948, USG continued to misuse its patents by asserting the vitality of its illegal patent license agreements.

An antitrust conspiracy is presumed to continue until its termination is established. *United States* v. *Oregon Medical Society,* 343 U. S. 326, 333 (1952); *United States* v. *W. T. Grant Co.,* 345 U. S. 629, 632, note 5 (1953). See also *Local 167, International Brotherhood of Teamsters* v. *United States,* 291 U. S. 293 (1934). Notwithstanding this well-established doctrine USG urges that there "can be no presumption in law of the continuance of illegal conduct" (USG Br. 51). USG had the burden, which it utterly failed to meet, of overcoming the presumption of continuance. This it could only do by showing that both in fact and in law it had purged itself of its patent misuse.

USG urged on the Court five facts of record, any one of which it claimed constituted evidence of purge prior to May 15, 1951 (R. 813; Finding 22, R. 1150-1151). The Court noticed that even though appellant had made a cautionary reservation, in a footnote on page 144 of its brief that the "five facts" of purge are "only illustrative and not the only or exclusive facts showing purge" (R. 813), USG was presenting "those matters which it regards as most potent in showing purge" (R. 1012). The fact is that neither in the Court below nor in this Court has it presented any other facts showing purge.

USG's first claimed act of purge was a tentative notice sent to its licensees in 1941 while the Government antitrust litigation was pending, to the effect that USG would suspend price fixing "until we decide again to exercise our right to do so" (Finding 22, R. 1150-1151). The Court below, in finding that this notice did not constitute purge, properly pointed both to USG's defiant reservation of its power to reestablish price fixing and, relying on the authority of the *Katzinger* and *MacGregor* cases mentioned above (p. 45, *supra*), to the fact that the price fixing provision was inseparably joined with other provisions found

violative of the act (Finding 22, R. 1151), so that the entire document remained illegal even after price-fixing was withdrawn.

USG argues that this finding is "meaningless" and "contrary to the authorities." It asserts that "non-use demonstrates purge; it is particularly pertinent in showing dissipation of any illegal effects" (USG Br. 54). USG's reservation of the power to resume price fixing when it pleased was never waived. It remained a condition under which the licensees were permitted to use USG's patents. Continuation of that condition was itself a misuse and the very antithesis of purge, since an unlawful agreement to fix prices is unlawful whether enforced or not. *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 397 note 3 (1947); *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402; 405 note 3 (1947). See also *United Shoe Machinery Corp.* v. *United States*, 258 U. S. 451, 458 (1922); *F. C. Russell Co.* v. *Consumer's Insulation Co.*, 226 F. 2d 373 (3rd Cir. 1955).

Furthermore, in none of the cases on which USG relies was an entire industry organized as was the gypsum industry in the case at bar. Thus, the effects of the misuse in each case could be dissipated and purge thereby effected by "a patentee's affirmative, unilateral action to cease or terminate the alleged patent misuse" (USG Br. 54). In the instant case, however, as this Court has recognized, the effects of the misuse could not be dissipated simply by the elimination of the offending clause of the license agreement. And see *Hoague-Sprauge Corp.* v. *Bird & Son*, 91 F. Supp. 159, 163 (D. Mass. 1950), cited in Appellant's Brief, page 56.

The pertinent question is whether USG showed that it purged itself prior to, or during the period of, non-payment by National which ended with the entry of the Final De-

cree in 1951 (p. 7, note 7, *supra*). National does not have to rely on the fresh misuse which the Court below found by virtue of the suits commenced by USG in 1953. But if USG in 1953 was contumaciously prepared to defy the adjudication contained in Article IV of the Final Decree, its protestation of an earlier purge must be dealt with skeptically. This is particularly true in relation to other "acts" claimed by USG to constitute purge, which are not acts at all, but mere descriptions of a subjective, compliant frame of mind.

The second claim of purge is that when the licensees ceased paying royalties, USG acquiesced in their non-payment (R. 813). The suits to recover the royalties under the agreements and this appeal show that the acquiescence, whatever operative legal meaning it might have had, never took place, or, having taken place, was abandoned at the precise moment in time when USG reached its decision to flout the Decrees of 1949 and 1951.

National stopped paying royalties two days after this Court's decision that the license agreements were illegal (R. 607). Acquiescence under the force of a decision of this Court was not a purging act by USG. As is shown in the Statement of the Case, *supra* (pp. 7-8), after remand to the District Court, proceedings were had, summary judgment granted, and hearings were conducted as to the proposed form of judgment. In the course of these hearings USG proposed time and again that only the minimum price provisions of the patent licenses should be declared to be illegal. Throughout the summer of 1949, briefs and arguments proceeded, and finally a Decree was entered on November 7, 1949 by the District Court (p. 9, *supra*). USG does not assert that a single act of purge took place at any time subsequent to the decision of this Court on March 8, 1948 and prior to the Decree of November 7,

1949, except as it now discloses a belated description of its state of mind.

As an incident of the November 1949 Decree, USG drew up new forms of license agreements "in connection with consideration of a form of a decree" (R. 813). These unsatisfactory forms of license agreement were never actually used but they are relied upon by USG as its third claim of purge (R. 813). It did not tender these agreements for commercial acceptance by its licensees, and it was not even proposed that the agreements become effective until the Final Decree was entered (Finding 22, R. 1151). Nor did the proposed agreements conform in substance with what was ultimately approved by this Court in 340 U. S. 76, for example, the proposed agreement required the licensee to supply price and quantity figures and this requirement was deleted by the Court (R. 1014, Finding 22, R. 1151, see p. 14, *supra*). Since the inadequate proposed agreements could not have become effective until May 15, 1951, when the Final Decree was entered, they cannot possibly show purge prior to that date.

The fourth claim to purge made by USG was that it reached an unacted-upon decision not to appeal the District Court's 1949 decision unless the Government itself appealed (R. 814). USG in fact appealed on very different questions from those posed by the Government, and, consequently, this subjective nicety can have had no objective effect (Compare R. 505 *with* R. 509). If it be true, as USG now asserts, that its fourth claim of purge was misunderstood by the Court below, and USG was relying on the 1949 adjudication as purging it (USG Br. 55) this claim could have no meaning during National's non-payment period since the 1949 adjudication did not become embodied into a Final Decree enjoining USG from further restraint of trade until May 15, 1951.

It is not even asserted that any affirmative act of purge on the part of USG took place during the period from November 1949 to May 15, 1951. This circumstance disposes not only of the fourth claim but also of the fifth, and final claim of purge. This claim is that this Court, by its injunction of May 29, 1950 against enforcing the price provisions, somehow cured USG's pervasive restraints of trade (R. 814). This Court's narrow injunction of May 29, 1950, could not purge the broad misuse of USG. No claim is made that anything was done affirmatively by USG relevant to a purge between May 29, 1950 and May 15, 1951, the date of the Final Decree.

The lower Court found that these five claimed acts of purge, even if true, could not in law constitute a purge of USG's patent misuse (Finding 22, R. 1150; Conclusion 11, R. 1157). The very authorities on which USG relies as indicating it has purged itself (USG Br. 56-59) show, on the contrary, that USG has utterly failed to meet the burden imposed upon it. (See p. 72, *supra.*)

C. *USG having failed below to offer proof of purge sufficient in law had no right to a hearing for the purpose of taking testimony concerning purge.*

Although all of the specific claims of purge made in the Court below by USG were correctly found by the Court to be insufficient in law (pp. 71 to 75, *supra*), and although USG failed to allege any other facts which might constitute purge by it, nevertheless, USG now urges that the Court below "erroneously decided the issues of misuse and purge during the 1948-1951 period without receipt of any evidence" (USG Br. 23, 48-62).

This is not a case where misuse is being injected into a patent infringement suit by an alleged infringer who raises for the first time factual issues as to misuse and

purge. This Court had found in this case the most sweeping misuse by USG of patents (see pp. 66-67, *supra*). The question was whether USG had purged itself during the period from March 10, 1948 until May 15, 1951, when the Final Decree was entered. In order to help USG, therefore, purge would have had to be shown during the three year period while the proceedings were pending before this Court on appeal or before the lower Court on reconsideration and formulation of a decree.[32]

Except for the five claims discussed above (pp. 71-75, *supra*) no specific matter of any kind was asserted as constituting a purge which might have been operative during this period. USG had ample opportunities to offer alleged facts constituting purge which it would undertake to prove if a hearing on purge were afforded. Even on this appeal, although it complains that the lower Court treated its five facts of record as "the only evidence of purge" (USG Br. 54) it still makes no specific claims to the existence of other facts which, if proved, might establish purge. It would have

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32 This Court rendered its decision on March 8, 1948 (333 U. S. 364) and denied a rehearing on April 5, 1948 (333 U. S. 869). Thereafter, beginning on June 8, 1948, the case was again before the District Court where numerous briefs and memoranda were filed by all parties, in connection with the United States' motion for summary judgment, the offers of proof, suggested findings of fact and the form and contents of the decree to be entered. After a hearing by the District Court on July 14, 1949, further memoranda were submitted up to August 12, 1949 (p. 8, *supra*). The Court entered its decree on November 7, 1949 (p. 9, *supra*). Both the United States and USG appealed, and on May 29, 1950, this Court dismissed USG's appeal (339 U. S. 959, 969) and noted probable jurisdiction in the appeal of the United States (339 U. S. 960). The case was argued on October 19, 1950 and decided on November 27, 1950 (340 U. S. 76). Once again, the case was before the lower Court from January 4, 1951 when the mandate was filed, until May 15, 1951 when the final decree was entered (p. 12, *supra*).

been a waste of time for the Court below to have taken testimony on the five specific claims made, for even if proved they would be insufficient in law.[33] The failure of appellant to specify—below or here—any other matters which it claims would operate as a purge if proven constituted an effective surrender of any serious claim to the need for the taking of evidence. No right to a hearing existed because there was present no genuine issue of material fact. See 6 *Moore's Federal Practice* (2d Ed.) 2001 *et seq.* and cases cited.

The proceedings below presented the typical situation for the application of summary judgment principles.[34] It is now well-decided that where a patentee seeks equitable relief and a continuing misuse of the patent is established as a matter of law, summary judgment may be rendered against the patentee. 6 *Moore's Federal Practice* (2d Ed.) p. 2246, citing *Morton Salt* v. *G. S. Suppiger Co.*, 314 U. S. 488 (1942); *Lincoln Electric Co.* v. *Linde Air Products Co.*, 171 F. 2d 223 (6th Cir. 1948). Identical considerations should deter this Court from remanding the proceeding for the taking of further testimony.

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33 They were described by USG as facts "on the record" (R. 813).

34 When, in an action to recover royalties under a patent licensing agreement, the only issue was a legal one as to the validity of its provisions, summary judgment for the licensee was said to be proper where the provisions are invalid. *Park-In Theatres* v. *Paramount-Richards Theatres*, 90 F. Supp. 730 (D. Del., 1950), *aff'd* 185 F. 2d 407 (3rd Cir., 1950), *cert. denied*, 341 U. S. 950 (1951).

V

The District Court correctly ruled that USG's suits constituted a fresh misuse because they sought to enforce the illegal license agreements.

The District Court ruled that USG's suits, insofar as they sought to enforce its illegal license agreements, constituted a fresh misuse, which barred all claims against all petitioners so long as such suits were pending. (Conclusion 13, R. 1157.)

It will be recalled that Newark and Ebsary, unlike National and Certain-teed, did not take a license from USG after entry of the 1951 Decree (R. 607). Therefore USG's claims against Newark and Ebsary covered the period from 1948 to the date of the filing of the complaints against them (February 27, 1953) (R. 622, 634). This fresh abuse ruling was particularly important only to Newark and Ebsary, as it was the sole ground on which USG's post-decree claims against them were ordered to be dismissed by the Court below.

This holding of fresh abuse, of course, if correct, would also bar all USG claims against National for the pre-decree period as well. *Morton Salt Co.* v. *G. S. Suppiger Co.* (*supra*). In view of the many grounds which sustain National's position up to May 15, 1951 (Points II, III and IV, *supra*) we do not elaborately argue the correctness of this ruling below which carries the misuse right up to the filing of the USG complaints. Certainly, the ruling is novel. But so is USG's doggedness in seeking to enforce its license agreements even after they had been adjudicated "illegal, null and void" after this long and historic litigation.[35]

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35 Thus, on September 8, 1953 in a brief answering petitioners' briefs in the District Court, USG, notwithstanding the prior deci-

We do, however, point out briefly to this Court that Section 271(d) of Title 35 and Rule 8 of the Rules of Civil Procedure upon which USG relies, do not conflict with the fresh abuse ruling.[36]

A. *The fresh abuse ruling does not conflict with Section 271(d) of Title 35.*

Title 35, U. S. C. Sec. 271(d), insofar as is here relevant, provides:

> "No patent owner *otherwise entitled to relief for infringement* . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . (3) sought to enforce his patent rights against infringement or contributory infringement." [37] (Emphasis added)

USG argues that since the mere bringing of a patent infringement suit is not in itself a misuse, *a fortiori*, a suit on an illegal license agreement is not itself a misuse (USG Br. 45). This contention was advanced for the first time on USG's motion for a new trial, and was disposed of by the Trial Court's memorandum opinion of June 30, 1955, as follows (R. 1337):

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sions of this Court, still asserted, "Each individual license agreement in this case constituted a valid and binding contract . . ." (p. 87). It tried to escape the sting of Article IV of the Decree by the claim that it "was the concerted action among the gypsum board manufacturers" which prompted Article IV, arguing, that "the adjudication of law violation was not by reason of any inherent illegality in the terms of the contract . . ." (p. 88).

36 USG urges also that *Hartford-Empire, supra*, p. 53, conflicts with the fresh abuse ruling. Our discussion *supra*, pp. 54-59 shows that nothing therein bears upon the fresh misuse ruling.

37 This codification became effective January 1, 1953. Thereafter, USG sued on its illegal agreements and for infringement.

"The vital words for us . . . are 'otherwise entitled.' Patents are classical instruments in conspiracies and combinations to violate the Sherman Act. Can it be that where a designated misuse of patents—here patent license agreements—has been adjudged to be violative of that Act that thereafter the patentee-licensor is absolutely protected by paragraph (d)(3) from the defense of misuse in recovering upon those adjudged unlawful agreements? Can it be possible that Congress intended, by paragraph (d), to give to a patentee a protection superior to the broad public policy of the Sherman Act?"

It answered its own questions by stating:

"We cannot believe that paragraph (d) was intended to or can properly be construed as nullifying the power of this Court to effectuate the purposes of an anti-trust decree. In short USG is *not* 'otherwise entitled' to come within paragraph (d)(3)."

From the face of the statute it is plain that it merely lays down the principle that a patentee *otherwise entitled to relief* is not guilty of misuse by merely enforcing his patent rights against *infringement or contributory infringement.* That, of course, is not an accurate description of what USG did in its suits. Its infringement claim constituted only one of five or more counts.

USG errs in claiming that a suit on a license agreement is an enforcement of a patent right within the meaning of the statute (USG Br. 44). The statute is limited solely to enforcing "rights against infringement." A suit on a license agreement is on a contract; a suit for infringement is for a tort.[38] The distinction is basic in the whole patent field.

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38 See note 23, p. 51, *supra.*

It was the suit on the illegal license agreement which the lower Court primarily relied upon as showing continued misuse during the post-decree period, and consequently USG can get no comfort from the statute.

Moreover, the legislative history of Section 271(d) shows that USG has distorted the meaning of the statute. Section 271 of the Patent Act of 1952 developed as a result of the *Mercoid* cases (*Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944) and *Mercoid Corp.* v. *Minneapolis Honeywell Regulator Co.*, 320 U. S. 680 (1944)). In *Mercoid* this Court held that a patentee guilty of misuse could not succeed in a contributory infringement action. Language in the *Mercoid* opinions raised the question whether a patentee, otherwise free of any misuse of his patent, could be said to be attempting to extend his patent grant and thereby misusing it merely by bringing a suit for contributory infringement. The *Mercoid* cases were interpreted by some members of the patent bar to forbid any contributory infringement suits (see, e.g., Giles S. Rich "Infringement Under Section 271 of the Patent Act of 1952," 35 J. P. O. S. 476-500 (July 1953), 21 Geo. Wash. L. Rev. 521-46 (April 1953)), and at least one decision directly so held. *Stroco Products* v. *Mullenbach*, 67 U. S. P. Q. 168 (S. D. Cal. 1944).[39] See also *Master Metal Strip Service* v. *Protex Weatherstrip Mfg. Co.*, 169 F. 2d 700 (7th Cir., 1948), *cert. denied* 335 U. S. 898 (1948).

Because of the doubt and confusion as to the state of the law caused by the *Mercoid* cases and conflicting decisions resulting therefrom, the New York Patent Law As-

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39 Section 271(d) overruled this case, but only in its limited field. Cf. *Kobe* v. *Dempsey Pump Co.*, 198 F. 2d 416, 424-25 (10th Cir. 1952), *cert. denied* 344 U. S. 837 (1952).

sociation sponsored various bills which resulted in the enactment of Section 271.[40]

The resulting statute, Section 271, was designed to reassert the right to sue for contributory infringement. Subsection (d) is ancillary to subsections (b) and (c) which define and limit contributory infringement of a patent. Reviser's Note to Section 271. Subsection (d)'s purpose, in the words of the Judiciary Committee Report, is to provide "that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent." Sen. Rep. No. 1979, 82nd Cong. 2d Sess. p. 8 (1952); H. R. Rep. No. 1923, 82nd Cong. 2d Sess. p. 9 (1952).[41]

B. *The fresh abuse ruling does not conflict with Rule 8.*

USG asserts that the fresh abuse ruling conflicts with Rule 8, which permits assertion of the same claim in several alternative counts (USG Br. 41-44). Under Rule 8, it is

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40 See Hearings Before Committee on the Judiciary on H. R. 5988, 80th Cong. 2d Sess. (1948); Hearings Before Committee on the Judiciary on H. R. 3866, 81st Cong. 1st Sess. (1949); Hearings Before Committee on Judiciary on H. R. 3760, 82nd Cong. 1st Sess. (1951).

41 As Mr. Rich, who spoke for the Patent Law Association in sponsoring the bills before the Judiciary Committee, has elsewhere stated:

> "Clause (3) says 'sought to *enforce* his patent rights against infringement or contributory infringement,' having reference to suits under paragraph (a), (b) or (c), and is directed to the situation in cases which have arisen in which the courts have said that the mere bringing of a suit against a contributory infringer is an attempt to extend the monopoly and hence a misuse of the patent because the objective is to monopolize the sale of 'unpatented' wares" (35 J. P. O. S. at p. 494).

For a discussion of the development of Section 271 see 66 Harvard Law Rev. 909-18 (1953).

said, the "final theory of recovery is for the court rather than pleader" (*id.* 41); that if USG confined its claims to infringement or *quantum meruit,* such claims might be defeated because USG failed to assert a valid claim under the contracts adjudicated illegal, null and void (*id.* 42).

This argument proves too much. If the Final Decree contained a specific injunction against enforcement of USG's illegal contracts, Rule 8 would not constitute a defense to a contempt action. The declaratory provisions of a Decree must also be respected. Rule 8 was not intended to permit the filing of a pleading in violation of a Court's decree. Nor can there be any doubt that USG was seriously pressing its claims under its illegal contracts, because, in its answer to the petitions in the District Court, USG averred that "in essence" its suits "in other District Courts . . . constitute actions (1) to recover unpaid royalties against said defendants under their respective license agreements. . . . " (R. 786).

CONCLUSION

For the foregoing reasons the decision of the statutory three-judge District Court enforcing, interpreting and modifying its Decree of May 15, 1951 should be affirmed.

Respectfully submitted,

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October, 1956

APPENDIX A

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF IOWA

CENTRAL DIVISION

UNITED STATES GYPSUM COMPANY, an Illinois corporation, Plaintiff, *vs.* NATIONAL GYPSUM COMPANY, a Delaware corporation, Defendant.	Civil Action No. 564

COMPLAINT

Plaintiff, United States Gypsum Company, for complaint against defendant, National Gypsum Company, alleges as follows:

Count I

FOR A FIRST SEPARATE AND DISTINCT CLAIM:

1. Plaintiff, United States Gypsum Company (referred to hereinafter as U. S. Gypsum), is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, having its principal place of business at Chicago, Illinois. U. S. Gypsum has qualified as a foreign corporation to do business in the State of Iowa and for many years has been and is doing business within the Northern District of Iowa.

2. Defendant, National Gypsum Company (referred to hereinafter as National), is a corporation duly organized and existing under and by virtue of the laws of the State

of Delaware. National has qualified as a foreign corporation to do business in the State of Iowa and has a regular and established place of business in Webster County, State of Iowa. For many years National has been and is doing business within the Central Division of the Northern District of Iowa.

3. This Court has jurisdiction by reason of the fact that plaintiff, U. S. Gypsum, is a corporation incorporated under the laws of the State of Illinois, and that defendant, National, is a corporation incorporated under the laws of the State of Delaware, and that the matter in controversy exceeds, exclusive of interests and costs, the sum of Three Thousand Dollars ($3,000). This civil action is being brought in a judicial district in which defendant is a resident within the meaning of Section 1391 of Title 28, U. S. Code.

4. On October 17, 1929, U. S. Gypsum, as Licensor, and National, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, National was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreement set forth, a true copy of which agreement is attached hereto as Exhibit A to this Count and made a part hereof.*

5. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was

* Exhibit A referred to in this Count has not been printed herein but is available at 1947 R. p. 4355.

duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 733,197 theretofore filed by Carlisle K. Roos on August 20, 1924, which application was included in the said license agreement of October 17, 1929, and said Letters Patent No. 2,017,022 duly became Letters Patent under said license so granted to National.

6. It was provided in said license agreement that for the privilege of using said patents National would pay to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of National's selling price of gypsum board manufactured and sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Application Serial No. 733,197, upon which Application said Letters Patent No. 2,017,022 was issued as aforesaid on October 8, 1935.

7. Commencing with the license fees or royalties under said license agreement for the month of February, 1948 (payable under said license agreement on or before the 20th day of March, 1948) and continuing to May 15, 1951, National failed and refused to pay any such license fees or royalties to U. S. Gypsum, although during the whole of said period National continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022.

8. There is now due and payable to U. S. Gypsum by National as license fees or royalties under said license agreement an amount equal to one per cent (1%) of the selling price of National of all of said gypsum board so manufactured and sold by it between February 1, 1948, and

May 15, 1951, embodying or made by the use of inventions disclosed and claimed in said Letters Patent No. 2,017,022.

9. Pursuant to the provisions of said license agreement of October 17, 1929, National as such Licensee, during the period commencing on February 1, 1948, and ending on May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 and sold the same for an amount aggregating, to-wit: One Hundred Sixty Million Dollars ($160,000,000), for which said National has become indebted to U. S. Gypsum for license fees or royalties aggregating One Million Six Hundred Thousand Dollars ($1,600,000), which said license fees and royalties said National has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count II

FOR A SECOND SEPARATE AND DISTINCT CLAIM:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2, 3, 4, 5 and 6 of Count I of the Complaint with like effect as if herein fully set forth.

2. On or about February 1, 1948, National discontinued the payment of said license fees or royalties but nevertheless continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. U. S. Gypsum and National each having determined to discontinue compliance with the provisions said license agreement, agreed, and it was so understo between them, that National would account for and pay

to U. S. Gypsum under said license agreement the said license fee or royalty of one per cent (1%) of National's selling price for gypsum board actually manufactured and sold by it embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. It was further understood and agreed that no further performance would be required by either party under said license agreement except that National could continue to use said patents thereunder and would account for and pay to U. S. Gypsum all such license fees or royalties for the actual use of said patents as aforesaid. National continued to so manufacture and sell said gypsum board under its said license until May 15, 1951, and thereupon became and now is indebted to U. S. Gypsum in an amount therefor equal to one per cent (1%) of its selling price of all such gypsum board manufactured and sold by it between February 1, 1948, and May 15, 1951, embodying or made by the use of the inventions and improvements disclosed and claimed in said Letters Patent No. 2,017,022.

3. National, during the period commencing February 1, 1948, and ending May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 and sold the same for an amount aggregating, to-wit: One Hundred Sixty Million Dollars ($160,000,000) for which National has become indebted to U. S. Gypsum for license fees or royalties in an amount aggregating One Million Six Hundred Thousand Dollars ($1,600,000), which said license fees or royalties so payable as aforesaid National has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count III

FOR A THIRD SEPARATE AND DISTINCT CLAIM:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2 and 3 of Count I of the Complaint with like effect as if herein fully set forth.

2. On October 17, 1929, U. S. Gypsum, as Licensor, and National, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, National was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreement set forth.

3. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 733,197 theretofore filed by Carlisle K. Roos on August 20, 1924, which application was included in said license agreement of October 17, 1929, and said Letters Patent No. 2,017,022 duly became Letters Patent under said license so granted to National.

4. It was provided in said license agreement that for the privilege of using said patents National would pay to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of National's sell-

ing price of gypsum board manufactured and sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Application Serial No. 733,197, upon which Application said Letters Patent No. 2,017,022 was issued as aforesaid on October 8, 1935.

5. On or about the 1st day of February, 1948, National repudiated its said license agreement of October 17, 1929, and discontinued the payment of all license fees or royalties payable or to be paid thereunder and refused to be bound by any of the provisions thereof. U. S. Gypsum acquiesced in such repudiation and thereafter each of the parties thereto treated the license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform the same.

6. National then and there at its request made use of U. S. Gypsum's Letters Patent No. 2,017,022 in the manufacture and sale of gypsum board embodying or made by the use of the inventions disclosed and claimed therein and continued to so use the same until May 15, 1951. National in consideration thereof promised to pay to U. S. Gypsum the reasonable value of the use of plaintiff's Letters Patent No. 2,017,022 from the time of such repudiation to May 15, 1951.

7. National, during such period, manufactured great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022, and sold the same for an amount aggregating, to-wit: One Hundred Sixty Million Dollars ($160,000,000). The fair and reasonable value of such use of said Letters Patent is not less than one per cent (1%) of National's said selling price of such gypsum board so manufactured and sold by it as aforesaid.

8. National thereupon became indebted to U. S. Gypsum in an amount aggregating, to-wit: One Million Six Hundred Thousand Dollars ($1,600,000), being the fair and reasonable value of the use of said Letters Patent, and being so indebted National, in consideration thereof, then and there promised U. S. Gypsum to pay it the said sum of money, on request. Yet National, though requested, has not paid the same or any part thereof to U. S. Gypsum but refuses so to do, to the damage of U. S. Gypsum of One Million Six Hundred Thousand Dollars ($1,600,000).

Count IV

FOR A FOURTH SEPARATE AND DISTINCT CLAIM:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2 and 3 of Count I of the Complaint with like effect as if herein fully set forth.

2. For that whereas the defendant National on the 28th day of January, 1953, in the Northern District of Iowa, Central Division, and elsewhere throughout the United States, was indebted to the plaintiff U. S. Gypsum in the sum of One Million Six Hundred Thousand Dollars ($1,600,000) for the use of the plaintiff's Letters Patent of the United States No. 2,017,022 in the manufacture and sale of its gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent, during the period between February 1, 1948 and May 15, 1951 used and enjoyed by the defendant National at its request, and being so indebted, the defendant National, in consideration thereof, then and there promised the plaintiff U. S. Gypsum to pay it the said sum of money, on request. Yet the defendant National, though requested, has not paid the same, or any part thereof, to the plaintiff U. S. Gypsum,

but refuses so to do; to the damage of the plaintiff U. S. Gypsum of One Million Six Hundred Thousand Dollars ($1,600,000).

Count V

FOR A FIFTH SEPARATE AND DISTINCT CLAIM:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1 and 2 of Count I of the Complaint, with like effect as if herein fully set forth.

2. This Court has jurisdiction by reason of the fact that this is a civil action based upon United States Letters Patent No. 2,017,022, dated October 8, 1935, arising under the patent laws of the United States, as hereinafter more fully appears. This action is being brought in a judicial district where defendant has committed acts of infringement and has a regular and established place of business within the meaning of Section 1400 of Title 28, U. S. Code.

3. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on the Application Serial No. 733,197, theretofore filed by Carlisle K. Roos on August 20, 1924, and all right, title and interest in said United States Letters Patent No. 2,017,022 remained in U. S. Gypsum during the entire life of said Letters Patent.

4. National has, within the last six years prior to the filing of this Complaint, and since the issuance of said Letters Patent, beginning on February 1, 1948, and continuing until May 15, 1951, without authority or permission of U. S. Gypsum, infringed said Letters Patent No. 2,017,022 wilfully and deliberately by making, selling and using within

the United States, including the use and sale thereof within the Northern District of Iowa, Central Division, gypsum board (including but without limitation gypsum wallboard, gypsum lath, gypsum sheathing, and other similar boards containing a cellular core composed of cementitious material) embodying or made by the use of, the inventions disclosed and claimed in said Letters Patent.

5. National, during all periods pertinent to the Complaint, has had full knowledge of Letters Patent No. 2,017,022 and of the fact that all right, title and interest therein and thereto was in U. S. Gypsum, but despite said knowledge, National continued and persisted in such infringement, as aforesaid.

6. By reason of the aforesaid infringement, National has derived unlawful gains and profits which plaintiff would otherwise have received but for the aforesaid infringement, to the damage of the plaintiff in the sum of One Million Six Hundred Thousand Dollars ($1,600,000).

WHEREFORE, plaintiff, U. S. Gypsum, prays as follows:

(a) If the Court finds that defendant, National, is indebted to plaintiff, U. S. Gypsum, as alleged in either Counts I, II, III or IV hereof, that judgment be entered against said defendant for the sum of One Million Six Hundred Thousand Dollars ($1,600,000), together with interest and costs of this suit;

(b) Or in the alternative, if the Court finds that defendant, National, has infringed U. S. Gypsum's Letters Patent No. 2,017,022, as charged in Count V hereof, that judgment be entered against the defendant for due compensation for making, using, and selling said invention, not less than a reasonable royalty therefor,

in the sum of One Million Six Hundred Thousand Dollars ($1,600,000), together with costs of this suit.

/s/ Cranston Spray
Cranston Spray

/s/ Robert C. Keck
Robert C. Keck

MacLeisch, Spray, Price & Underwood
134 South LaSalle Street
Chicago 3, Illinois

/s/ Arthur A. Olson
Arthur A. Olson

Thiess, Olson, Mecklenburger,
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77 West Washington Street
Chicago, Illinois

/s/ Bert B. Burnquist
Bert B. Burnquist

Burnquist, Helsell & Burnquist
State Bank Building
Fort Dodge, Iowa

Attorneys for the Plaintiff

Amended Complaint

IN THE

UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF IOWA—CENTRAL DIVISION

Civil Action No. 564

UNITED STATES GYPSUM COMPANY, an Illinois Corporation,

Plaintiff,

—vs.—

NATIONAL GYPSUM COMPANY, a Delaware Corporation,

Defendant.

AMENDMENT TO COMPLAINT

Plaintiff, United States Gypsum Company, hereinafter referred to as U. S. Gypsum, having heretofore, on January 28, 1953, filed its Complaint herein, Civil Action No. 564, against defendant, National Gypsum Company, hereinafter referred to as National, and National not having heretofore filed a responsive pleading, U. S. Gypsum now amends, pursuant to Rule 15(a) of the Federal Rules of Civil Procedure, its Complaint as follows:

I. *Amend Count I of the Complaint by adding five additional paragraphs immediately following paragraph 9 on page 4 of the Complaint, such additional paragraphs to read as follows:*

10. On or about the 30th day of December, 1935, National, as the resulting or surviving corporation of a merger effected under the laws of the State of Delaware on or about

that date between National and Universal Gypsum & Lime Co., a Delaware corporation (hereinafter referred to as Universal) acquired, among other assets, certain gypsum board plants of Universal, together with that certain license agreement entered into on November 5, 1929, between U. S. Gypsum, as licensor, and Universal and its receivers, as the licensee, under which the licensee therein was licensed to manufacture and sell gypsum board embodying or made by the use of the inventions set forth and claimed in the same letters patent and applications for letters patent as those described in said license agreement of October 17, 1929, between U. S. Gypsum and National, including letters patent thereafter granted upon any of said applications, for the full term of said letters patent. Said license agreement of November 5, 1929, included said Application Serial No. 733,197 upon which Letters Patent of the United States No. 2,017,022 was duly and legally granted to U. S. Gypsum as aforesaid, which thereupon became letters patent under said Universal license of November 5, 1929. During the period of the events mentioned in this Count, from February 1, 1948, to May 15, 1951, and for some time prior thereto, the provisions of the licenses under said letters patent and applications for letters patent contained in said National agreement of October 17, 1929, and said Universal agreement of November 5, 1929, including the provision for payment by licensee of a license fee or royalty of one per cent (1%) of licensee's selling price of gypsum board manufactured and sold by it, were identical.

11. A true copy of said Universal license agreement of November 5, 1929, is attached hereto as Exhibit B to this Count and made a part hereof.

12. During the period when both of said licenses provided for payment by the licensee of a license fee or royalty of

[fol. 1145] one per cent (1%) of licensee's selling price of gypsum board manufactured and sold by it, National paid said license fee or royalty of one per cent (1%) of its selling price of gypsum board manufactured and sold by it until February 1, 1948, and plaintiff is informed and believes, and on such information and belief states the fact to be, that National allocated a part of such license fees or royalties to the said National license of October 17, 1929, and a part thereof to said Universal license of November 5, 1929, and that the proportion so allocated by National to said Universal license of November 5, 1929, was the amount of the license fees or royalties due on such gypsum board manufactured in the plants acquired by National from Universal in the merger of December 30, 1935, as aforesaid.

13. National, during the period commencing on February 1, 1948, and ending on May 14, 1951, manufactured in said gypsum plants acquired by it from Universal as aforesaid, great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022, and sold the same for an amount aggregating, to-wit: Seventy Million Dollars ($70,000,000), for which National, upon the basis of such allocation of license fees or royalties, has become indebted to U. S. Gypsum for license fees or royalties aggregating Seven Hundred Thousand Dollars ($700,000), which said license fees and royalties said National has wholly failed and refused to pay in whole or in part although often requested so to do.

14. Plaintiff in any event claims only a single license fee or royalty of one per cent (1%) of National's selling price [fol. 1146] of gypsum board embodying or made by the use of Letters Patent No. 2,017,022, manufactured and sold by National during said period from February 1, 1948, to May 15, 1951.

Amended Complaint

II. *Amend Count II of the Complaint by adding three additional paragraphs immediately following paragraph 3 on page 5 of the Complaint, such additional paragraphs to read as follows:*

4. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 10, 11 and 12 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

5. On or about February 1, 1948, National discontinued the payment of said license fee of one per cent (1%) of its selling price of gypsum board manufactured and sold by it but nevertheless continued to manufacture in its several plants, including said plants acquired from Universal, gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 as aforesaid and to sell the same. U. S. Gypsum and National, each having determined to discontinue compliance with the provisions of said license agreement of November 5, 1929, agreed, and it was so understood between them, that National would account for and pay to U. S. Gypsum the said license fee or royalty of one per cent (1%) of National's selling price for gypsum board actually manufactured by it in its several plants, including said plants acquired from Universal, and embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. It was further understood and [fol. 1147] agreed that no further performance would be required by either party under said license agreement of November 5, 1929, except that National could continue to use said patents and would account for and pay to U. S. Gypsum all such license fees or royalties for the actual use thereof as aforesaid.

Amended Complaint

6. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 13 and 14 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

III. *Amend Count III of the Complaint by adding two additional paragraphs immediately following paragraph 5 on page 7 of the Complaint, such additional paragraphs to read as follows*:

5a. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 10 and 12 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

5b. At the same time National repudiated its said license agreement of October 17, 1929, to-wit, on or about the first day of February, 1948, it repudiated its said license agreement of November 5, 1929, and discontinued the payment of all license fees or royalties payable or to be paid thereunder and refused to be bound by the provisions thereof. U. S. Gypsum acquiesced in such repudiation and thereafter each of the parties thereto treated the said license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform the same.

[fol. 1148] IV. *Amend paragraph (a) of the Prayer, appearing on the last page of the Complaint, to read as follows*:

(a) If the court finds that defendant National is indebted to plaintiff U. S. Gypsum, as alleged in either Count I hereof as amended by section I of this Amendment, Count II hereof as amended by section II of this Amendment,

Count III hereof as amended by section III of this Amendment, or Count IV hereof, that judgment be entered against defendant for the sum of One Million Six Hundred Thousand Dollars ($1,600,000), together with interest and costs of this suit;

Cranston Spray, Robert C. Keck, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois, Arthur A. Olson, Thiess, Olson Mecklenburger, vonHolst & Coltman, 77 West Washington Street, Chicago 2, Illinois, Bert B. Burnquist, Burnquist, Helsell & Burnquist, State Bank Building, Fort Dodge, Iowa, Attorneys for the Plaintiff.

[fol. 1149] [File endorsement omitted]